



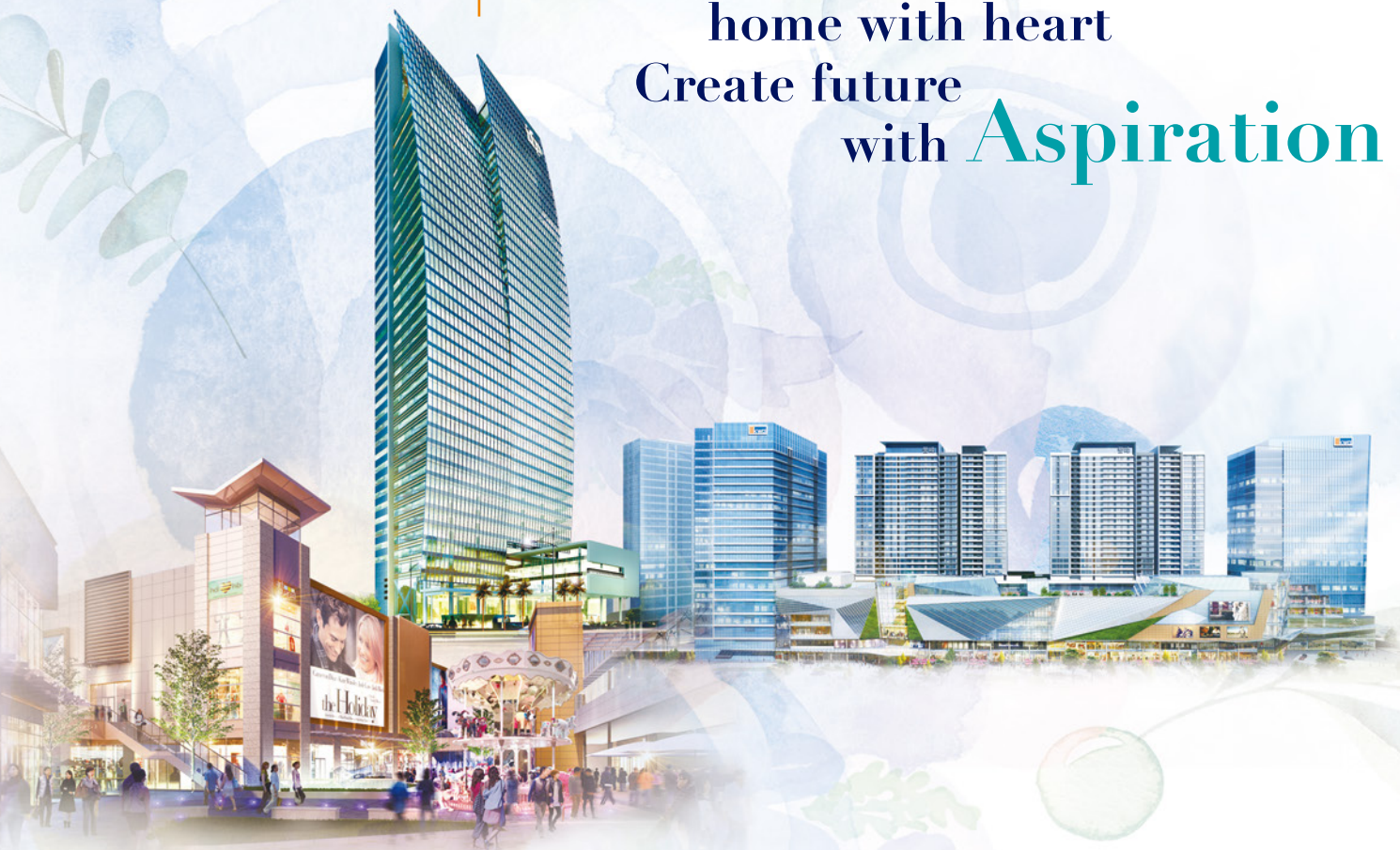
**KWG PROPERTY HOLDING LIMITED**

Incorporated in the Cayman Islands with limited liability | Stock Code: 1813

ANNUAL REPORT **2017**



**Build** 以心築家 創建未來  
home with heart  
Create future  
with **Aspiration**





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## Directors

### Executive Directors

Mr. Kong Jian Min (*Chairman*)  
Mr. Kong Jian Tao  
*(Chief Executive Officer)*  
Mr. Kong Jian Nan  
Mr. Li Jian Ming  
Mr. Tsui Kam Tim

### Independent Non-executive Directors

Mr. Lee Ka Sze, Carmelo, JP  
Mr. Tam Chun Fai  
Mr. Li Bin Hai

## Company Secretary

Mr. Tsui Kam Tim

## Authorised Representatives

Mr. Kong Jian Min  
Mr. Tsui Kam Tim

## Audit Committee

Mr. Tam Chun Fai (*Chairman*)  
Mr. Lee Ka Sze, Carmelo, JP  
Mr. Li Bin Hai

## Remuneration Committee

Mr. Tam Chun Fai (*Chairman*)  
Mr. Kong Jian Min  
Mr. Li Bin Hai

## Nomination Committee

Mr. Kong Jian Min (*Chairman*)  
Mr. Tam Chun Fai  
Mr. Li Bin Hai

## Registered Office

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

## Principal Place of Business in Hong Kong

Units 8503-05A, Level 85  
International Commerce Centre  
1 Austin Road West  
Kowloon, Hong Kong

## Principal Share Registrar and Transfer Agent

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

## Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited  
17M Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

## Principal Bankers

Agricultural Bank of China Limited  
China Construction Bank Corporation  
Industrial and Commercial Bank of China Limited  
The Bank of East Asia, Limited  
Standard Chartered Bank (China) Limited  
Standard Chartered Bank (Hong Kong) Limited  
Shanghai Pudong Development Bank Co., Ltd.  
China Minsheng Banking Corp. Ltd.  
Hang Seng Bank (China) Limited  
Hang Seng Bank Limited

## Auditor

Ernst & Young

## Legal Advisors

as to Hong Kong law:  
Sidley Austin

as to Cayman Islands law:  
Conyers Dill & Pearman

## Website

[www.kwgproperty.com](http://www.kwgproperty.com)

## Stock Code

1813 (Main Board of The Stock Exchange of Hong Kong Limited)





Founded in 1995, KWG Property Holding Limited (“KWG Property” or the “Company”, together with its subsidiaries, collectively the “Group”) is now one of the leading large-scale property developers in Guangzhou. Its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (stock code: 1813) in July 2007. Since its establishment, KWG Property has been focusing on the development, sales, operation and management of high quality properties.

Over the past 23 years, the Group has built up a comprehensive property development system well supported by a balanced portfolio offering different types of products, including medium to high-end residential properties, serviced apartments, villas, offices, hotels and shopping malls. The Group has also extended its business scope from traditional property development and sales to the areas of asset management and property management. A strategic development framework has been formed, with Guangzhou, Foshan, Nanning, Hainan, Zhaoqing, Zhongshan, Liuzhou and Shenzhen as its hubs for South China, Suzhou, Shanghai, Hangzhou, Nanjing, Hefei, Xuzhou, Jiaxing, Taizhou, Changshu, Lishui, Taicang, Wuxi, Nantong and Shaoxing for East China, Chengdu, Beijing, Tianjin, Wuhan, Jinan and Chongqing for other regions. The Group has succeeded in opening up overseas market by establishing presence in Hong Kong.

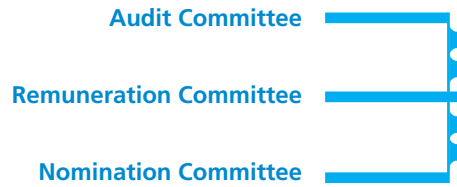
The Group has always adhered to a steady land bank replenishment strategy. Its current land bank is sufficient for the Group’s development in the coming 4-5 years.

The Group will focus on the development of residential properties while seeking to deploy more resources for the establishment of a diversified property development portfolio in the future. In order to keep the profit portfolio steady, spread the investment risks and ensure the stable development, the Group will strengthen the residential properties as our main force by implementing a prudent growth strategy, while increasing the proportion of commercial properties, such as offices, hotels and high-end shopping malls, to be held in long-term.



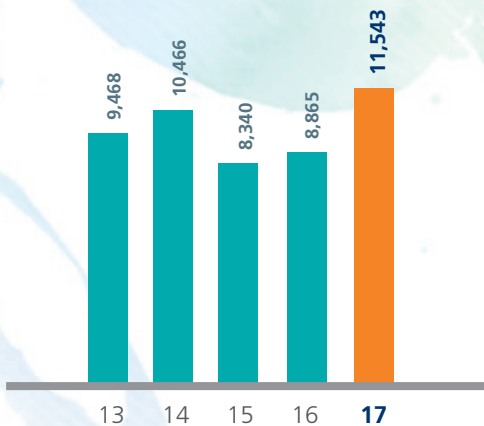
# Management Structure of the Group

- emphasis on a cohesive team and collaboration
- clearly-defined division of staff and duties
- nurturing talents and providing internal promotion

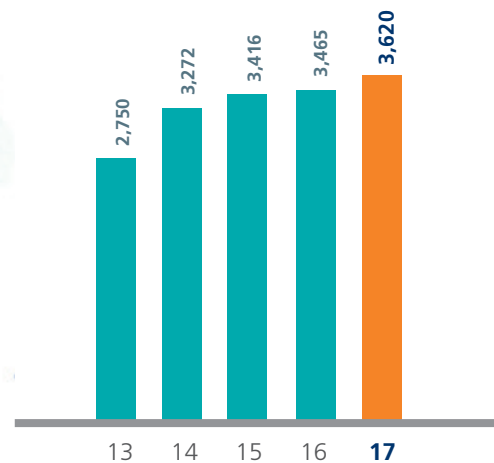


# Financial Highlights

**Revenue**  
(in RMB Million)



**Profit Attributable to Owners of the Company**  
(in RMB Million)



 Board of Directors

 Chairman

 Chief Executive Officer

 Tendering Committee



	Year Ended 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
<b>CONSOLIDATED RESULTS</b>					
Revenue	<b>11,543,072</b>	8,865,329	8,339,756	10,465,788	9,468,002
Profit attributable to owners of the Company	<b>3,620,071</b>	3,464,714	3,416,248	3,272,225	2,749,769
Earnings per share attributable to owners of the Company (RMB cents) – Basic and diluted	<b>117</b>	115	115	112	95
<b>CONSOLIDATED ASSETS AND LIABILITIES</b>					
Total assets	<b>134,945,038</b>	110,741,810	79,681,417	71,547,015	61,590,384
Total liabilities	<b>106,699,345</b>	86,732,898	57,322,501	51,110,599	43,748,222

## Honours and Awards

Year	Award	Project/Branch	Institution
2017	2017 Top 50 Listed Real Estate Enterprises in China by Comprehensive Strength	The Group	China Real Estate Association
2017	2017 Top 20 Real Estate Enterprises in China by Brand Value	The Group	Enterprise Research Institute of the Development Research Center of the State Council, Real Estate Research Institute of Tsinghua University and China Index Academy
2017	2017 Top 10 Real Estate Enterprises in China with Leading Brand Value in Comprehensive Development — City's Comprehensive Operation	The Group	Enterprise Research Institute of the Development Research Center of the State Council, Real Estate Research Institute of Tsinghua University and China Index Academy
2017	2017 Leading Brand Enterprise in Professional Property Service in China	The Group	Enterprise Research Institute of the Development Research Center of the State Council, Real Estate Research Institute of Tsinghua University and China Index Academy
2017	The 25th Anniversary of the PRC Real Estate Hall of Honour — Brand Enterprise	The Group	China Real Estate Newspaper Group
2017	Property with Best Value for Holding for the Year	KWG Centre, Beijing	www.focus.cn
2017	Top 10 Expectation-worthy Properties in Guangxi	Fragrant Seasons, Nanning	Organising Committee of Guangxi Top 50 Real Estate Property Award
2017	Property with the Best Product Type	Top of World, Nanning	Guangxi Daily Media Group



Year	Award	Project/Branch	Institution
2017	2017 Anhui Real Estate Jinzun Award — Exemplary Residential Community	City Moon, Hefei	www.berui.com
2017	2018 Global Chinese Real Estate Summit — Characteristic Town Model for the Year	Yunshang Retreat, Chengdu	ifeng.com
2017	2017 Choice of Internet Users of Sohu for Properties in Beijing — Best Reputation Award	KWG Centre, Beijing	www.focus.cn



# Chairman's Statement

"Our meticulous attention to details and pursuance of exquisite quality allow customers to have higher expectation. While optimizing the value of land, we endeavor to provide customers with an extraordinary lifestyle."

## ***Dear Shareholders:***

I am pleased to present the annual results of the Group for the 12 months ended 31 December 2017. The Group recorded total revenue of approximately RMB11,543.1 million, representing an increase of 30.2% from the same period of 2016. Profit attributable to owners of the Company was approximately RMB3,620.1 million.





## 1 Reinforcing Existing Regions to Achieve Upsurge in Scale and Profit

Since March 2017, new phase of control and regulatory measures encompassing home purchase restrictions, mortgage restrictions and sales restrictions has been introduced progressively from tier-one cities to tier-two cities. In the third quarter, the more stringent “Four-Restriction” policies, which restricts on purchase, mortgage, sales, credit facility, land purchases, commercial housing and provident fund loans, was promulgated in most tier-two and tier-three cities.

During the reporting period, the Group made timely adjustments to its sales strategy and product portfolio in accordance with respective control and regulatory measures implemented in cities and regions where it has entered, launched new phases of existing projects and brand new projects to replenish its sellable resources. In cities where strict regulatory control was in place, the Group sold part of competitive en-bloc office buildings to enhance its sales. As these office buildings are derived from integrated projects or earlier projects with lower costs, it is conducive to the Group in maintaining profit margin.

By strengthening its foothold in existing regions proactively, the Group succeeded in achieving its annual sales target, establishing the value basis and brand effect for the Group as it entered the rapid development phase. During this process, the Group profoundly recognised that it has to stay attuned with market trend, sharpen its competitive edges and seize the opportunities to increase sales in the rapid development of property market, so as to uphold its leading position in future competition.

## 2 Stepping Up Efforts in Developing New Cities with Focus on Greater-Bay-Area and Yangtze-River-Delta Area

In the first half of 2017, all types of land supply in China was ramped up, among which the supply of residential land saw the most remarkable increase. In spite of the promulgation of restrictive measures such as “competition in gross floor area (“GFA”) held for investment”, “restricted pre-sale prices”, “restricted land prices” and “trading curb”, property developers did not cease their vigorous moves in rivalling for land resources in heated cities. After fierce competition in the first half of the year, land market regained stability in the second half of the year given tightened credit and heightened market entry barrier, as evidenced by the decline in average transaction price and premium rate.

Facing intensified industry consolidation, the Group is well aware of the importance of sufficient land bank to be the solid support as it moves from profit making to scale expansion, in particular when there is accelerating destocking.



In view of enormous growth of Greater-Bay-Area and striking development achieved under the Belt and Road Initiative, the Group kept abreast of current political strategies and set foot in Shenzhen, Zhongshan, Zhaoqing and Liuzhou from an international perspective. Moreover, the Group expedited its pace in the expansion into cities of Yangtze-River-Delta Area, extending its coverage from Shanghai, Hangzhou, Suzhou, Nanjing and Hefei to new cities such as Xuzhou, Taizhou, Changshu, Wuxi, Taicang and Nantong. Meanwhile, strategic deployment in Northern China with a focus on Beijing and Tianjin was underpinned by the addition of Jinan. The Group obtained 35 premium sites through tender, auction and listing in the open market or acquisition, resulting in an increase in attributable GFA of approximately 3,350,000 sq.m.

As at 31 December 2017, the number of cities entered by the Group increased to 29, laying a solid foundation for the Group's high speed development in the upcoming stage.

### 3 Capturing on Financing Opportunities on the back of Recommendation by Various Investment Institutions

In 2017, the Group made reasonable arrangement of financing activities by flexibly availing itself of different sorts of financing channels according to changes in the capital market. With the firm belief that sufficient cash on hand and low finance costs will be beneficial to its sound development, the Group strived to optimise its financial structure.

During the reporting period, the Group issued six tranches of offshore USD bonds with favourable coupon rates, the proceeds of which were utilised to call the bonds issued in previous years with higher interest rates. Two tranches of domestic RMB bonds were also issued to repay borrowings of the Company.

Thanks to remarkable growth in results, stable profit margin and prominent enhancement in brand value in the reporting period, the Group was given an issuer credit rating of "AAA" and debt rating of "AAA" with stable outlook by China Chengxin Securities Rating Co., Ltd (中誠信證券評估有限公司), the domestic rating agency.

Meanwhile, share price target of the Group was raised by large investment banks including Morgan Stanley, Merrill Lynch, Goldman Sachs, Nomura, Deutsche Bank and Citi, with an investment rating of "Buy". Sharp rise in share price and market capitalisation as well as enlargement of Southbound shareholder base reflect the Group's high recognition from onshore and offshore capital markets, which bolsters its confidence going further.

### 4 Enhancing Operation Efficiency by Implementing Staff Co-investment Scheme, Talents Absorption and Operational Innovation

During the reporting period, the Group implemented the staff co-investment scheme featuring sharing return and risk, for the purpose of strengthening motivation of the Group's management and staff as well as stimulating self-motivation of core staff in research and development, investment decisions and operation department. The scheme is fully implemented for all brand new projects and new phases of existing projects, in which senior management and project core staff are mandatory to participate while other staff can join the same on a voluntary basis.

Staff co-investment scheme aligns the benefits of the Group's senior management and project core staff with that of the Group. More prudential and rational consideration will be given to current and future decisions, enabling higher operating efficiency and creating greater value for projects as well as the Group. A win-win is thus achieved for staff, the Group and its shareholders.

Besides, in pursuit of greater competitiveness among peers, the Group updated its talent pool based on performance assessment, retained core staff and introduced innovative talents to inject new blood for the Group's future development. Through collision between traditional thoughts and modern ideas contributed by experienced employees and newcomers, the Group is well positioned to make more breakthroughs and seize more opportunities.

During the reporting period, the Group also carried out operational reform that kept pace with the industry, for instance, the establishment and implementation of big operation system, dual reporting to city general manager and the Group, full functioning of online office software, and the implementation of monitoring system against corruption. As a result, the Group managed to improve operating efficiency and ensure smooth development.

## 5 Outlook

For the year of 2018, the Central Economic Work Conference proposed to "accelerate the establishment of a housing system with multi-agent suppliers, multi-channel support and purchase-lease dual mechanism" to further fortify the principle of "housing properties for accommodation, not speculative trading". Differentiated policies for control and regulation are promulgated for various types of demands, seeking to meet the needs of first-time home buyers and upgraders while curbing speculative property trading, for the sake of facilitating stable and healthy development of the property market. The Group forecasts that the purchase-lease dual mechanism will become the core portion of the comprehensive housing system in future. Meanwhile, property developers will adjust their corporate strategies and the industry will slow down the pace of growth.

Considering the macro-control policy and its own development needs, the Group will continue to launch brand new projects in tier-one cities and surrounding satellite cities in 2018, making an all-out effort in expediting the expansion of scale. These brand new projects are also located at the core areas of Greater-Bay-Area and cities in Yangtze-River-Delta Area, such as Guangzhou, Foshan, Zhaoqing, Shanghai, Hangzhou, Suzhou and Hefei.

In the next few years, the Group will also speed up the opening of self-operated shopping malls in Beijing, Suzhou, Chengdu, Guangzhou and Nanning, in addition to the launch of long-term rental apartments in Guangzhou, Shenzhen and Chengdu. By doing so, it is expected to increase the number of operating properties to generate stable cash inflow in the long run.

## 6 Appreciation

On behalf of the Group and the Board, I would like to express uttermost gratitude to all shareholders, investors, business partners and customers who have been offering great support and assistance to us. Thanks are also owed to each and every directors, management and staff, whose united effort and dedication have been the solid foundation on which we can go forward. Joining hands with you all, we are looking forward to forging a brighter future for the Group.

**Kong Jian Min**  
*Chairman*

23 March 2018

# Management

## Discussion and Analysis









## Financial Review

### Revenue

Revenue of the Group comprises primarily the (i) gross proceeds from the sale of properties, (ii) gross recurring revenue received and receivable from investment properties, (iii) gross revenue from hotel room rentals, food and beverage sales and other ancillary services when the services are rendered and (iv) property management fee income. The revenue is primarily generated from its four business segments: property development, property investment, hotel operation and property management.

The revenue amounted to approximately RMB11,543.1 million in 2017, representing an increase of 30.2% from approximately RMB8,865.3 million in 2016. The proportionated revenue amounted to approximately RMB20,684.9 million in 2017, representing an increase of 18.4% from approximately RMB17,467.2 million in 2016.

In 2017, the revenue generated from property development, property investment, hotel operation and property management were approximately RMB10,432.1 million, RMB231.2 million, RMB424.5 million and RMB455.3 million, respectively.

### Property development

Revenue generated from property development increased by 31.7% to approximately RMB10,432.1 million in 2017 from approximately RMB7,923.0 million in 2016, primarily due to an increase in the total GFA delivered to 705,390 sq.m. in 2017 from 631,100 sq.m. in 2016. The increase in revenue was also attributable to an increase in the recognised average selling price ("ASP") to RMB14,789 per sq.m. from RMB12,554 per sq.m. in 2016. The increase in recognised ASP was primarily attributable to an increase in the proportion of offices delivered with relatively higher ASP in 2017.

### Property investment

Revenue generated from property investment increased by 26.8% to approximately RMB231.2 million in 2017 from approximately RMB182.4 million in 2016, primarily due to an increase in leased investment properties.

### Hotel operation

Revenue generated from hotel operation increased by 8.9% to approximately RMB424.5 million in 2017 from approximately RMB389.8 million in 2016, primarily due to an increase in occupancy rate of the hotels.





### Property management

Revenue generated from property management increased by 23.0% to approximately RMB455.3 million in 2017 from approximately RMB370.1 million in 2016, primarily due to an increase in the number of properties under management. The increase in revenue was also attributable to an increased proportion of commercial properties under management with higher management fee per sq.m.

### Cost of Sales

Cost of sales of the Group primarily represents the costs incurred directly for the Group's property development activities. The principal component of cost of sales is cost of properties sold, which includes the direct cost of construction, cost of obtaining land use rights and capitalised borrowing costs on related borrowed funds during the period of construction.

Cost of sales increased by 29.8% to approximately RMB7,523.1 million in 2017 from approximately RMB5,795.0 million in 2016, mainly due to the increase in total GFA delivered in sales of properties.

Land cost per sq.m. increased from RMB3,219 in 2016 to RMB3,617 in 2017, due to the change in delivery portfolio with different city mix as compared with that in 2016.

Construction cost per sq.m. slightly decreased from RMB4,334 in 2016 to RMB4,329 in 2017.

### Gross Profit

Gross profit of the Group increased by 30.9% to approximately RMB4,019.9 million in 2017 from approximately RMB3,070.3 million in 2016. The Group reported a gross profit margin of 34.8% for 2017 as compared with 34.6% for 2016. Proportionated gross profit of the Group increased by 27.1% to approximately RMB7,594.6 million in 2017. The proportionated gross profit margin was 36.7% for 2017 as compared with 34.2% for 2016.

### Other Income and Gains, Net

Other income and gains decreased by 13.5% to approximately RMB632.9 million in 2017 from approximately RMB731.7 million in 2016, mainly comprising interest income of approximately RMB323.3 million and management fee income related to our joint venture projects of approximately RMB196.4 million.





### Selling and Marketing Expenses

Selling and marketing expenses of the Group increased by 34.0% to approximately RMB432.5 million in 2017 from approximately RMB322.8 million in 2016, mainly due to an increase in sales commission, which was in line with the increase in revenue generated from sales of properties during the period.

### Administrative Expenses

Administrative expenses of the Group slightly decreased by 3.3% to approximately RMB936.8 million in 2017 from approximately RMB969.2 million in 2016.

### Other Operating Expenses, Net

Other operating expenses of the Group was approximately RMB501.8 million in 2017 (2016: approximately RMB118.2 million), mainly comprising premium paid on early redemption of senior notes and foreign exchange losses arising from domestic corporate bonds.

### Fair Value Gains on Investment Properties, Net

The Group reported fair value gains on investment properties of approximately RMB1,204.9 million for 2017 (2016: approximately RMB165.9 million), mainly related to various leaseable commercial properties in various regions. The fair value gains attributable to those leaseable commercial properties, including KWG Centre I in Beijing, International Metropolis Plaza in Shanghai and The Star in Guangzhou, were approximately RMB1,030.5 million for 2017. Fair value gains in respect of properties owned by the Group's joint ventures are included in "Share of profits and losses of joint ventures" in the consolidated statement of profit or loss.

### Finance Costs

Finance costs of the Group being approximately RMB329.5 million in 2017 (2016: approximately RMB159.9 million), were related to the borrowing costs on certain general corporate loans and partial senior notes. Since such borrowings were not earmarked for project development, thus they have not been capitalised. The weighted average interest rate was 5.8% as compared with 6.0% in 2016.



### Income Tax Expenses

Income tax expenses increased by 82.9% to approximately RMB1,950.0 million in 2017 from approximately RMB1,065.9 million in 2016, primarily due to an increase in provision of land appreciation tax as a result of the increase in the total GFA delivered from sales of properties in 2017. The increase in income tax expenses was also attributable to an increase in corporate income tax, provision resulting from fair value gains on investment properties.

### Profit for the Year

The Group reported profit and core profit for the year of approximately RMB3,605.0 million and approximately RMB3,523.1 million for 2017 (2016: approximately RMB3,461.6 million and approximately RMB2,921.9 million). Net profit margin and core profit margin are 31.2% and 30.5% respectively (2016: 39.0% and 33.0% respectively). Profit for the year attributable to owners of the Company increased by 4.5% to approximately RMB3,620.1 million for 2017 (2016: approximately RMB3,464.7 million).

As mentioned above, the increase in the total GFA delivered in 2017 contributed to the growth of the Group's revenue, resulting in gross profit of the Group increased by 30.9% to approximately RMB4,019.9 million in 2017 (2016: approximately RMB3,070.3 million). Meanwhile, the strong growth was partially offset by exchange losses arising from domestic corporate bonds and premium paid on early redemption of senior notes.

## Liquidity, Financial and Capital Resources

### Cash Position

As at 31 December 2017, the carrying amounts of the Group's cash and bank balances were approximately RMB40,467.3 million (31 December 2016: approximately RMB26,901.6 million).

Pursuant to relevant regulations in the PRC, certain property development companies of the Group are required to place a certain amount of pre-sales proceeds received at designated bank accounts as guarantee deposits for construction of the relevant properties. As at 31 December 2017, the carrying amount of the restricted cash was approximately RMB1,268.4 million (31 December 2016: approximately RMB1,130.7 million).



### Borrowings and Charges on the Group's Assets

As at 31 December 2017, the Group's bank and other loans, senior notes and domestic corporate bonds were approximately RMB16,731.2 million, RMB13,735.0 million and RMB29,179.0 million respectively. Amongst the bank and other loans, approximately RMB1,257.7 million will be repayable within 1 year, approximately RMB9,367.5 million will be repayable between 2 and 5 years and approximately RMB6,106.0 million will be repayable over 5 years. Amongst the senior notes, approximately RMB11,259.1 million will be repayable between 2 and 5 years and approximately RMB2,475.9 million will be repayable over 5 years. Amongst the domestic corporate bonds, approximately RMB2,482.9 million will be repayable within 1 year and approximately RMB26,696.1 million will be repayable between 2 and 5 years.

As at 31 December 2017, the Group's bank and other loans of approximately RMB16,731.2 million were secured by buildings, land use rights, investment properties, properties under development, completed properties held for sale and time deposits of the Group with total carrying value of approximately RMB19,251.5 million, and equity interests of certain subsidiaries of the Group. The senior notes were jointly and severally guaranteed by certain subsidiaries of the Group and were secured by the pledges of their shares.

The carrying amounts of all the Group's bank and other loans were denominated in RMB except for certain loan balances with an aggregate amount of approximately RMB2,834.8 million as at 31 December 2017 which were denominated in Hong Kong dollar of approximately RMB1,557.8 million and denominated in United States dollar of approximately RMB1,277.0 million respectively. All of the Group's bank loan were charged at floating interest rates except for loan balances with an aggregate amount of RMB200.0 million which were charged at fixed interest rates as at 31 December 2017. The Group's senior notes were denominated in United States dollar and charged at fixed interest rates as at 31 December 2017. The Group's domestic corporate bonds were denominated in RMB and charged at fixed interest rates as at 31 December 2017.

### Gearing Ratio

The gearing ratio is measured by the net borrowings (total borrowings net of cash and cash equivalents and restricted cash) over the total equity. As at 31 December 2017, the gearing ratio was 67.9% (31 December 2016: 66.8%).

### Risk of Exchange Rate Fluctuation

The Group mainly operates in Mainland China, so most of its revenues and expenses are measured in RMB. In addition, except for the above mentioned, the Company's domestic corporate bonds were denominated in RMB. The value of RMB against the United States dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions. The conversion of RMB into foreign currencies, including the United States dollar and the Hong Kong dollar, has been based on rates set by the People's Bank of China.

During 2017, the exchange rates of RMB against the United States dollar and the Hong Kong dollar increased and the Board expects that any fluctuation of RMB's exchange rate will not have material adverse effect on the operation of the Group.

### Contingent Liabilities

- (i) As at 31 December 2017, the Group had the following contingent liabilities relating to guarantees in respect of mortgage facilities for certain purchasers amounting to approximately RMB5,036.1 million (31 December 2016: approximately RMB7,330.0 million). This represented the guarantees in respect of mortgage facilities granted by banks relating to the mortgage loans arranged for purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interests and penalties owed by the defaulting purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon issuance of real estate ownership certificates which will generally be available within one to two years after the purchasers take possession of the relevant properties.

The fair value of the guarantees is not significant and the Board considers that in case of default in payments, the net realisable value of the related properties will be sufficient to cover the repayment of the outstanding mortgage principals together with the accrued interests and penalties and therefore no provision has been made in the financial statements as at 31 December 2017 and 2016 for the guarantees.

- (ii) As at 31 December 2017 and 2016, the Group had provided guarantees in respect of certain bank loans for joint ventures.

## Employees and Emolument Policies

As at 31 December 2017, the Group employed a total of approximately 6,950 employees. The total staff costs incurred was approximately RMB703.4 million during the financial year ended 31 December 2017. The remuneration of employees was determined based on their performance, skill, experience and prevailing industry practices. The Group reviews the remuneration policies and packages on a regular basis and will make necessary adjustment to be commensurate with the pay level in the industry. In addition to basic salary, the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees), employees may be offered with discretionary bonus and cash awards based on individual performance.

## Market Review

In 2017, the disparity in regulatory measures adopted by local governments increased as the Central Government continued to emphasise the provision of accommodation as the primary purpose of real estate properties. Demands from investors and speculative buyers were suppressed as the results of implementation of restrictions on purchase, mortgage, pre-sales and other financial and supervisory measures for real estate. The focus of market regulation and control was put on tier-one cities, key tier-two cities and those tier-three and tier-four cities around tier-one cities. The real estate markets became popular in cities such as Chongqing, Chengdu and Xi'an as regulations in most of tier-two and tier-three cities were relatively loosen because of destocking. The market momentum was still maintained in other cities such as Wuhan, Hangzhou, Tianjin and Nanjing, where stable growth was seen. According to the data from National Bureau of Statistics, for the year of 2017, sales volume and sales amount for commodity properties amounted to 1,694.08 million sq.m. and RMB13,370.1 billion respectively, representing a year-on-year increase of 7.7% and 13.7% as compared to the same period last year.

The structure of the industry began moving towards oligopoly and those fast-growing large-scale property developers had captured more market shares. Small and medium-sized property developers continued to face challenging market environment. Market consolidation has accelerated. In order to avoid from being merged or going bankruptcy in this severe market competition, property developers grasped opportunities to speed up with their launch plans. Owing to the destocking efforts, property developers were keen to replenish their land banks for further growth. During the reporting period, property developers made more investment in land acquisition to acquire more lands in tier-one, tier-two cities and surrounding tier-three cities.

According to the data from National Bureau of Statistics, during the year of 2017, the areas of land acquired by property developers amounted to 255.08 million sq.m., representing a year-on-year increase of 15.8%, and accrued land premium amounted to RMB1,364.3 billion, showing an increase of 49.4% and an increase in pace of growth of 2.4 percentage points.



## Business Review

During the reporting period, the Group closely monitored the implementation of regulations and control measures adopted by local governments and made timely adjustment to its selling plans and product mixes so as to launch suitable products that met market demands. Amongst the 53 projects currently on sale, 45% of the gross pre-sales were derived from Southern China and 35% were contributed from Eastern China. Gross pre-sales for the year of 2017 amounted to RMB38.0 billion in aggregate, representing a year-on-year increase of 33.2% as compared to that of last year, while attributable pre-sales amounted to RMB28.7 billion in aggregate, representing a year-on-year increase of 28.7% as compared to that of last year. The ASP was approximately RMB14,920 per sq.m. in Southern China and approximately RMB20,218 per sq.m. in Eastern China. The overall ASP for the year of 2017 was approximately RMB16,819 per sq.m., representing a year-on-year increase of 18.7% as compared to that of last year.

The Group launched a total of 12 brand new projects, namely Yunshang Retreat in Chengdu, Puli Oriental in Hangzhou, Fortunes Season in Guangzhou, The Riviera in Foshan, Suzhou Beiqiao Project (蘇州拾鯉), Exquisite Bay in Xuzhou, Fragrant Seasons in Nanning, City Moon in Hefei, The Riviera in Hangzhou, Joyful Season in Wuhan, Jiaying Haiyan Project, Lujiang The One in Hefei, of which Xuzhou, Hefei, Wuhan and Jiaying were the new cities that we launched for the first time. The project series we launched included The Riviera, a high-end brand, and Fragrant Seasons projects that perfectly matched with their surrounding scenic natural landscapes.

The Riviera in Foshan is located in Beijiao New Town, Shunde District, Foshan, the interchange of Guangzhou Metro Line 7 and Foshan Metro Line 3 that linked Guangzhou and Foshan. Close to Guangzhou, the project is well positioned in prime location with excellent ancillary commercial and residential services. The project was first launched in the second half of 2017. The Project suited local market demand and comprised fitted units with GFA of 97–141 sq.m., targeting to first-time home buyers and upgraders.

Fragrant Seasons in Nanning is located in Wuxiang New District, Nanning, adjacent to Wuxiang Mountain Forest Park with a panorama view of Wuxiang Lake Park in the south. The project is designed as a harmony blending of forest landscape and living environment. The project mainly offers fitted units with GFA of 85-126 sq.m. Since its first launch in October, the project has been receiving much enthusiasm by local buyers.

In order to accelerate its future development, the Group focused on further penetration into Southern China and Eastern China and expansion of its reach into Northern China and Southwest China. The Group, on the one hand, obtained premium land sites through tender, auction and listing in the open market on its own and, on the other hand, continued to actively merge and acquire land sites from secondary market to replenish its land bank with reasonable prices. In the meantime, the Group also successfully acquired projects with substantial growth potential such as Joyful Season in Wuhan and Bantian Project in Shenzhen by ways of mergers, acquisitions and urban redevelopment in Wuhan and Shenzhen.

During the reporting period, the Group acquired 35 premium land sites in Mainland China and Hong Kong, adding GFA of 5.31 million sq.m., at an average cost of RMB5,000 per sq.m. (excluding Hong Kong).

As at 31 December 2017, the Group owned 101 projects in 29 cities across Mainland China and Hong Kong with an attributable land bank of approximately 13.52 million sq.m.. Including unlisted urban redevelopment projects, the Group's current attributable land bank is approximately 18 million sq.m..

In order to fuel the enthusiasm of employees in participation in project construction and enhance the sense of responsibility of the senior management and employees, the Group officially established a staff co-investment scheme which are implemented in new projects such as Exquisite Bay in Xuzhou, Puli Oriental in Hangzhou, City Moon in Hefei, Fortunes Season in Guangzhou and The Riviera in Hangzhou, for which both subscription and payment rates met our expectation. With the strong commitments of senior management, project managers and employees of the Group, staff initiative and dedication are well aroused and their active participation in project construction and management is greatly encouraged.

## Investment Properties and Hotels

### (1) Hotels

As at 31 December 2017, the Group had seven hotels in operation, of which five hotels were located in Guangzhou, one hotel in Hangzhou and one hotel in Chengdu. Of which three hotels were run by international leading hotel brands, namely: W Hotel Guangzhou, Conrad Guangzhou (a JV project), and Four Points by Sheraton Guangzhou, Dongpu. The Mulian Hotels in CBD and Huadu district of Guangzhou, Hangzhou and Chengdu, were the boutique business hotels owned and operated by the Group.

The Mulian Hotel brand, our self-owned and operated hotels, was first introduced to the market in 2013. During these four years, the Group has established a new image for the hotels through delicat hardware and software facilities, comfortable business environment and high-quality tailor-made services. Located in either downtown area or new business center, The Mulian Hotels have become popular among business travelers. During the reporting period, The Mulian Hotels introduced a membership system. Through this system, it is expected that The Mulian Hotels will maintain good customer relationship and improve standards of services.

During the reporting period, revenue from hotel operation amounted to approximately RMB424.5 million, representing an increase of 8.9% as compared to that of last year.

### (2) Completed Investment Properties Available for Lease

The Group's office properties for lease includes International Finance Place ("IFP") and Global Metropolitan Plaza in the core area of Pearl River New Town, Guangzhou, International Commerce Place in Pazhou E-commerce Zone, Guangzhou, Amazing Bay in Xinjiangwan, Shanghai and Leader Plaza in Suzhou.

In December 2017, Shanghai U Fun, the Group's first shopping mall, held a grand opening ceremony. Located in Xinjiangwan, Shanghai and surrounded by mature residential areas and office buildings, Shanghai U Fun fills the lack of large commercial facilities in this area. With the introduction of Hema Supermarket (盒馬鮮生), Little SOCIUM, a customized cinema and an indoor skiing theme park, the shopping center attracts consumers in and around the district. The shopping center recorded a total of 200,000 visitors for first two days after its opening. As at the end of 2017, the occupancy rate of Shanghai U Fun reached approximately 90%.

The success of Shanghai U Fun will establish a benchmark for commercial projects in other cities. Chengdu U Fun, Suzhou U Fun, Guangzhou U Fun and Beijing M • Cube will also be opened in near future, signifying KWG Property's first year of operating shopping centers.

## Outlook

In 2018, it is expected that the Central Government will adhere to the general principle of making steady progress and focus on structural reform of supply side, driving stable growth, promoting reforms, adjusting economic structure, improving people's livelihood and avoiding risks.

With regard to real estate industry, in addition to the principle of "housing properties are for accommodation, not speculative trading" as stated in the report to the 19th National Congress of Communist Party of China, the Central Economic Work Conference reiterated at the end of the year that the government would accelerate the establishment of a housing system with multi-agent supply, multi-channel support, and purchase-lease dual mechanism and that it would improve the long-term mechanism for ensuring the stable and healthy development of the real estate market, keep the continual and stable regulatory policies of the real estate market, clarify the distribution of powers between central and local governments and implement differential control and regulation measures.

This clearly indicated its focus on regulation and control policy for the real estate market in 2018. The Central Government will aim to develop and improve the long-term mechanism for real estate market by ways of encouragement of purchase and lease of properties to improve housing system, classification and differentiated control measures to be taken in different cities.

In 2018, the Group will accelerate the construction progress of its new projects and launch them at the right time. Based on the Group's existing land bank, the scheduled new start of construction and launch plan, the Group expects that the sellable resources value will increase to RMB110.0 billion in 2018. Tier-one cities contribute 27% of sellable resources value while tier-two cities contribute 65% of sellable resources value. Based on the current market condition, sellable resources and construction schedule, the Group sets the pre-sales target at RMB65 billion.

In 2018, the Group expects to launch over 20 new projects including Beijing KWG Center, Shanghai Glory Palace, Hangzhou Sky Villa Mansion, Tianjin The Cosmos, Suzhou Wujiang Project, Guangzhou Nansha Shuilian, Taicang Project, Nantong Tongzhou Project, Wuxi Huishan Project, Huizhou Longmen Project etc.

With regard to our commercial properties, the Group plans to launch three series of long-term rental apartments, catering for the needs of different consumers. The Group will first launch long-term rental apartments in tier-one and key tier-two cities such as Guangzhou, Shenzhen, Shanghai, Nanjing and Chengdu as a trial. It is expected that the apartments will be offered for rent as early as in 2018. Based on the investment properties ready to launch, the Group expects that the leaseable GFA of investment properties will be over 2.7 million sq.m. in the year of 2020.

## Overview of the Group's Property Development

As at 31 December 2017, the Group's major projects are located in Guangzhou, Suzhou, Chengdu, Beijing, Hainan, Shanghai, Tianjin, Nanning, Hangzhou, Nanjing, Foshan, Hefei, Wuhan, Xuzhou, Jiaying, Taizhou, Jinan, Changshu, Lishui, Chongqing, Taicang, Wuxi, Zhaoqing, Zhongshan, Nantong, Liuzhou, Shaoxing, Shenzhen and Hong Kong.

No.	Project	District	Type of Product	Total GFA Attributable to the Group's Interest ('000 sq.m.)	Interest Attributable to the Group (%)
1.	The Summit	Guangzhou	Residential / villa / serviced apartment / office / commercial	1,593	100
2.	Global Metropolitan Plaza	Guangzhou	Office / commercial	40	50
3.	Tian Hui Plaza (included The Riviera and Top Plaza)	Guangzhou	Serviced apartment / office / hotel / commercial	57	33.3
4.	The Star	Guangzhou	Serviced apartment / office / commercial	199	100
5.	Top of World	Guangzhou	Villa / serviced apartment / office / hotel / commercial	431	100
6.	The Eden	Guangzhou	Residential / commercial	7	50
7.	Zengcheng Gua Lv Lake	Guangzhou	Villa / hotel	43	100
8.	Essence of City	Guangzhou	Residential / villa / commercial	261	100
9.	International Commerce Place	Guangzhou	Office / commercial	50	50
10.	CFC (including Mayfair and International Finance East)	Guangzhou	Serviced apartment / office / commercial	101	33.3
11.	The Horizon	Guangzhou	Residential / villa / commercial	111	50
12.	Fortunes Season	Guangzhou	Residential / villa / commercial	267	50
13.	Nansha Shuilian	Guangzhou	Residential / commercial	63	40
14.	IFP	Guangzhou	Office / commercial	61	100
15.	Four Points by Sheraton Guangzhou, Dongpu	Guangzhou	Hotel	35	100
16.	The Mulian Huadu (formerly known as Sheraton Guangzhou Huadu Resort)	Guangzhou	Hotel	25	100
17.	W Hotel / W Serviced Apartments	Guangzhou	Hotel / serviced apartment	80	100
18.	The Mulian Guangzhou	Guangzhou	Hotel	8	100
19.	The Sapphire	Suzhou	Residential / serviced apartment / hotel / commercial / office	61	100
20.	Suzhou Apex	Suzhou	Residential / serviced apartment / hotel / commercial	104	90
21.	Suzhou Emerald	Suzhou	Residential / commercial	5	100
22.	Leader Plaza	Suzhou	Serviced apartment / office / commercial	44	100



No.	Project	District	Type of Product	Total GFA Attributable to the Group's Interest ('000 sq.m.)	Interest Attributable to the Group (%)
23.	Wan Hui Plaza	Suzhou	Serviced apartment / office / commercial / hotel	60	100
24.	Suzhou Jade Garden	Suzhou	Residential / commercial	6	100
25.	Suzhou Wujiang Project	Suzhou	Residential	79	100
26.	Suzhou Beiqiao Project	Suzhou	Residential / commercial	46	20
27.	Suzhou Pingwang Project	Suzhou	Residential	29	50
28.	Suzhou Wuzhong Project	Suzhou	Residential / villa	58	100
29.	The Vision of the World	Chengdu	Residential / serviced apartment / commercial	55	100
30.	Chengdu Cosmos	Chengdu	Residential / serviced apartment / office / hotel / commercial	335	100
31.	Chengdu Sky Ville	Chengdu	Residential / serviced apartment / office / commercial	252	50
32.	Yunshang Retreat (formerly known as Yoonshang)	Chengdu	Residential / villa / commercial / hotel	618	55
33.	Fragrant Seasons	Beijing	Residential / villa / serviced apartment / commercial	17	100
34.	La Villa	Beijing	Residential / villa / commercial	12	50
35.	Beijing Apex	Beijing	Residential / villa / serviced apartment / office / commercial	50	50
36.	M • Cube	Beijing	Commercial	16	100
37.	Summer Terrace	Beijing	Residential / commercial	19	100
38.	KWG Center I	Beijing	Serviced apartment / office / commercial	128	100
39.	KWG Center II	Beijing	Serviced apartment / office / commercial	125	100
40.	Rose and Ginkgo Mansion	Beijing	Villa	27	33
41.	Pearl Coast	Hainan	Villa / residential / hotel	176	100
42.	Villa Como	Hainan	Villa / residential / hotel / commercial	367	100
43.	Hainan Lingao Project	Hainan	Residential	34	20
44.	International Metropolis Plaza	Shanghai	Office / commercial	45	100
45.	The Core of Center	Shanghai	Residential / serviced apartment / office / commercial	31	50
46.	Shanghai Apex	Shanghai	Residential / serviced apartment / hotel / commercial	38	100
47.	Shanghai Sapphire	Shanghai	Serviced apartment / hotel / commercial	52	100
48.	Amazing Bay	Shanghai	Residential / serviced apartment / hotel / office / commercial	66	50
49.	Vision of World	Shanghai	Residential / serviced apartment / commercial / hotel	127	100

No.	Project	District	Type of Product	Total GFA Attributable to the Group's Interest (‘000 sq.m.)	Interest Attributable to the Group (%)
50.	Glory Palace	Shanghai	Residential	121	100
51.	Jinnan New Town	Tianjin	Residential / villa / serviced apartment / commercial	540	25
52.	Boulevard Terrace I	Tianjin	Residential / commercial	3	100
53.	Boulevard Terrace II	Tianjin	Residential / villa / commercial	2	100
54.	Tianjin The Cosmos	Tianjin	Residential / villa / commercial	262	100
55.	Tianjin Jinghai Project	Tianjin	Residential	115	49
56.	The Core of Center	Nanning	Residential / serviced apartment / villa / office / commercial	409	87
57.	Guangxi International Finance Place	Nanning	Office / commercial	62	87
58.	Guangxi Top of World	Nanning	Residential / villa / commercial	348	87
59.	Fragrant Seasons	Nanning	Residential / villa / commercial	316	100
60.	Hangzhou Jade Garden	Hangzhou	Residential	1	100
61.	Hangzhou La Bali	Hangzhou	Residential / villa	3	100
62.	The More	Hangzhou	Residential	2	100
63.	The Mulian Hangzhou	Hangzhou	Hotel / commercial	18	100
64.	The Moon Mansion	Hangzhou	Residential / villa	64	51
65.	Sky Villa Mansion (formerly known as Hangzhou Xiaoshan Project)	Hangzhou	Residential / villa	56	100
66.	Majestic Mansion (formerly known as Hangzhou Shenhua Project)	Hangzhou	Residential / villa	50	100
67.	Puli Oriental	Hangzhou	Residential / commercial	70	50
68.	Shine City	Nanjing	Residential / office / commercial	19	50
69.	Oriental Bund (formerly known as Long King)	Foshan	Residential / villa / serviced apartment / office / commercial	1,216	50
70.	The Riviera	Foshan	Residential / commercial	155	51
71.	Riverine Capital	Foshan	Residential / serviced apartment / commercial	89	33.3
72.	City Moon I	Hefei	Residential / commercial	71	51
73.	City Moon II	Hefei	Residential / commercial	42	51
74.	The One (formerly known as Hefei Lujiang Project)	Hefei	Residential / commercial	165	100
75.	Hefei Lujiang Project II	Hefei	Residential	51	50
76.	Joyful Season	Wuhan	Residential / villa	138	60
77.	Wuhan Wutong Lake Project I	Wuhan	Residential / villa / commercial	92	100
78.	Wuhan Wutong Lake Project II	Wuhan	Residential / villa / commercial	142	100
79.	Exquisite Bay	Xuzhou	Residential / commercial	153	50

No.	Project	District	Type of Product	Total GFA Attributable to the Group's Interest ('000 sq.m.)	Interest Attributable to the Group (%)
80.	Jiaxing Haiyan Project (formerly known as Jiaxing Project)	Jiaxing	Residential / commercial	105	100
81.	Jiaxing Jiashan Project	Jiaxing	Residential	29	25
82.	Linhai Project I	Taizhou	Residential	93	100
83.	Linhai Project II	Taizhou	Residential / commercial	101	100
84.	Jinan Zhangqiu Project	Jinan	Residential	151	49
85.	Changshu Dongbang Project	Changshu	Residential	36	40
86.	Changshu Yushan Project	Changshu	Residential	17	25
87.	Liu Xiang Mansion	Lishui	Residential / commercial	76	49
88.	Chongqing The Riviera	Chongqing	Residential / commercial	47	100
89.	The Cosmos Chongqing	Chongqing	Residential / commercial	391	100
90.	Jiangsu Taicang Project	Taicang	Residential	118	100
91.	Wuxi Xinwu Project	Wuxi	Residential / commercial	23	20
92.	Wuxi Huishan Project	Wuxi	Residential / villa / commercial	92	49
93.	Zhaoqing Dawang Project	Zhaoqing	Residential	193	100
94.	Zhaoqing Duanzhou Project	Zhaoqing	Residential	62	33
95.	Zhongshan Xiqu Project	Zhongshan	Residential / commercial	142	100
96.	Nantong Tongzhou Project	Nantong	Residential / commercial	105	51
97.	The Moon Mansion	Liuzhou	Residential / villa / commercial	167	100
98.	Shaoxing Didang Lake Project	Shaoxing	Residential	55	24.9
99.	Shenzhen Bantian Project	Shenzhen	Serviced apartment / office / commercial	119	100
100.	Hong Kong Ap Lei Chau Project	Hong Kong	Residential / villa	35	50
101.	Hong Kong Kai Tak Project	Hong Kong	Residential	27	50



# Project Summary



## Guangzhou — 18 projects

Total Attributable GFA: approximately 3,477,000 sqm  
 The Summit  
 Global Metropolitan Plaza  
 Tian Hui Plaza (included The Riviera and Top Plaza)  
 The Star  
 Top of World  
 The Eden  
 Zengcheng Gua Lv Lake  
 Essence of City  
 International Commerce Place  
 CFC (including Mayfair and International Finance East)  
 The Horizon  
 Fortunes Season  
 Nansha Shuilian  
 IFP  
 Four Points by Sheraton Guangzhou, Dongpu  
 The Mulian Huadu (formerly known as Sheraton Guangzhou Huadu Resort)  
 W Hotel/W Serviced Apartments  
 The Mulian Guangzhou

## Foshan — 3 projects

Total Attributable GFA: approximately 1,460,000 sqm  
 Oriental Bund (formerly known as Long King)  
 The Riviera  
 Rivierne Capital

## Nanning — 4 projects

Total Attributable GFA: approximately 1,135,000 sqm  
 The Core of Center  
 Guangxi International Finance Place  
 Guangxi Top of World  
 Fragrant Seasons

## Hainan — 3 projects

Total Attributable GFA: approximately 577,000 sqm  
 Pearl Coast  
 Villa Como  
 Hainan Lingao Project

## Zhaoqing — 2 projects

Total Attributable GFA: approximately 255,000 sqm  
 Zhaoqing Dawang Project  
 Zhaoqing Duanzhou Project

## Zhongshan — 1 project

Total Attributable GFA: approximately 142,000 sqm  
 Zhongshan Xiqu Project

## Liuzhou — 1 project

Total Attributable GFA: approximately 167,000 sqm  
 The Moon Mansion

## Shenzhen — 1 project

Total Attributable GFA: approximately 119,000 sqm  
 Shenzhen Bantian Project

## Hong Kong — 2 projects

Total Attributable GFA: approximately 62,000 sqm  
 Hong Kong Ap Lei Chau Project  
 Hong Kong Kai Tak Project

## Shanghai — 7 projects

Total Attributable GFA: approximately 480,000 sqm  
 International Metropolis Plaza  
 The Core of Center  
 Shanghai Apex  
 Shanghai Sapphire  
 Amazing Bay  
 Vision of World  
 Glory Palace

## Hangzhou — 8 projects

Total Attributable GFA: approximately 264,000 sqm  
 Hangzhou Jade Garden  
 Hangzhou La Bali  
 The More  
 Thu Mulian Hangzhou  
 The Moon Mansion  
 Sky Villa Mansion (formerly known as Hangzhou Xiaoshan Project)  
 Majestic Mansion (formerly known as Hangzhou Shenhua Project)  
 Puli Oriental

## Suzhou — 10 projects

Total Attributable GFA: approximately 493,000 sqm  
 The Sapphire  
 Suzhou Apex  
 Suzhou Emerald  
 Leader Plaza  
 Wan Hui Plaza  
 Suzhou Jade Garden  
 Suzhou Wujiang Project  
 Suzhou Beiqiao Project  
 Suzhou Pingwang Project  
 Suzhou Wuzhong Project

## Nanjing — 1 project

Total Attributable GFA: approximately 19,000 sqm  
 Shine City

## Hefei — 4 projects

Total Attributable GFA: approximately 329,000 sqm  
 City Moon I  
 City Moon II  
 The One (formerly known as Hefei Lujiang Project)  
 Hefei Lujiang Project II

## Xuzhou — 1 project

Total Attributable GFA: approximately 153,000 sqm  
 Exquisite Bay

## Jiaxing — 2 projects

Total Attributable GFA: approximately 134,000 sqm  
 Jiaxing Haiyan Project (formerly known as Jiaxing Project)  
 Jiaxing Jiashan Project

## Taizhou — 2 projects

Total Attributable GFA: approximately 194,000 sqm  
 Linhai Project I  
 Linhai Project II

## Changshu — 2 projects

Total Attributable GFA: approximately 53,000 sqm  
 Changshu Dongbang Project  
 Changshu Yushan Project

## Lishui — 1 project

Total Attributable GFA: approximately 76,000 sqm  
 Liu Xiang Mansion

## Taicang — 1 project

Total Attributable GFA: approximately 118,000 sqm  
 Jiangsu Taicang Project

## Wuxi — 2 projects

Total Attributable GFA: approximately 115,000 sqm  
 Wuxi Xinwu Project  
 Wuxi Huishan Project

## Nantong — 1 project

Total Attributable GFA: approximately 105,000 sqm  
 Nantong Tongzhou Project

## Shaoxing — 1 project

Total Attributable GFA: approximately 55,000 sqm  
 Shaoxing Didang Lake Project

## Beijing — 8 projects

Total Attributable GFA: approximately 394,000 sqm  
 Fragrant Seasons  
 La Villa  
 Beijing Apex  
 M • Cube  
 Summer Terrace  
 KWG Center I  
 KWG Center II  
 Rose and Ginkgo Mansion

# Directors and Senior Management's Profile

## Director

### Executive Directors

**Kong Jian Min**, aged 50, is the founder of the Group and an executive director and the chairman of the Company. Mr. Kong is also a member of the remuneration committee and the chairman of the nomination committee of the Company. Mr. Kong is primarily responsible for the formulation of our development strategies, as well as supervising our project planning, business operation and sales and marketing. Mr. Kong graduated from Jinan University majoring in computer science in 1989. Mr. Kong has over 23 years of experience in property development and investment. Mr. Kong is a brother of Kong Jian Tao and Kong Jian Nan. Mr. Kong is also a director of all subsidiaries incorporated in the British Virgin Islands (the "BVI"), various subsidiaries incorporated in the PRC and two subsidiaries incorporated in Hong Kong.

**Kong Jian Tao**, aged 47, is an executive director and the chief executive officer of the Company. Mr. Kong is responsible for the overall operation of the Group's projects. He has over 23 years of experience in property development and has been a director of the Group since 1995. Mr. Kong is a brother of Kong Jian Min and Kong Jian Nan. Mr. Kong is also a director of most of subsidiaries incorporated in the BVI, various subsidiaries incorporated in the PRC and two subsidiaries incorporated in Hong Kong.

**Kong Jian Nan**, aged 52, is an executive director and executive vice president of the Company. Mr. Kong is responsible for coordinating and managing human resources, administrative management, IT management and legal affairs of the Group. He is a graduate of China Central Radio and TV University and joined the Group in 1999. Mr. Kong is a brother of Kong Jian Min and Kong Jian Tao. Mr. Kong is also a director of most of subsidiaries incorporated in the BVI and various subsidiaries incorporated in the PRC and three subsidiaries incorporated in Hong Kong.

**Li Jian Ming**, aged 51, is an executive director of the Company. Mr. Li graduated from South China University of Technology, majoring in industrial and civil construction. Mr. Li joined the Group in 1995 and had held the position of vice president in the engineering management division. He was appointed as an executive director of the Company in June 2007. Currently, Mr. Li serves as the director of construction, mainly responsible for the preliminary preparation work of the establishment of the construction group and the subsequent operation and management work.

**Tsui Kam Tim**, aged 49, is an executive director, the chief financial officer and the company secretary of the Company. Mr. Tsui is primarily responsible for the financial management and supervision of financial reporting, corporate finance, treasury, tax, risk management including internal control and other finance-related matters. Mr. Tsui graduated from Australia National University with a bachelor's degree in commerce and he is a professional member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, he was a senior manager of an international firm of certified public accountants. Mr. Tsui joined the Group in January 2007 as the chief financial officer and was appointed as an executive director of the Company in November 2007. Mr. Tsui is also a director of one subsidiary incorporated in the British Virgin Islands and various subsidiaries incorporated in Hong Kong.

### Independent Non-Executive Directors

**Lee Ka Sze, Carmelo JP**, aged 57, is an independent non-executive director and a member of the audit committee of the Company. Mr. Lee joined the Company in June 2007. He received a bachelor's degree in Laws and the Postgraduate Certificate in Laws from The University of Hong Kong. He is qualified as a solicitor in Hong Kong, England and Wales, Singapore and Australian Capital Territory and has been a partner of Messrs. Woo, Kwan, Lee & Lo since 1989. Mr. Lee is an independent non-executive director of Esprit Holdings Limited and China Pacific Insurance (Group) Co., Ltd.; and a non-executive director of CSPC Pharmaceutical Group Limited, Hopewell Holdings Limited, Safety Godown Company Limited, Termbray Industries International (Holdings) Limited and Yugang International Limited, all of which are listed on the Stock Exchange. Mr. Lee was appointed as a convenor cum member of the Financial Reporting Review Panel of The Financial Reporting Council in July 2016. Mr. Lee has been the chairman of the Listing Committee of the Stock Exchange from May 2012 to July 2015 after serving as a deputy chairman and a member of the Listing Committee of the Stock Exchange from 2009 to 2012 and from 2000 to 2003, respectively. Mr. Lee was a non-executive director of Y.T. Realty Group Limited from September 2004 to February 2016; and an Independent non-executive director of Ping An Insurance (Group) Company of China, Ltd from June 2009 to June 2015, both companies are listed on the Stock Exchange.

**Tam Chun Fai**, aged 55, is an independent non-executive director, the chairman of the audit committee, the chairman of the remuneration committee and a member of the nomination committee of the Company. Mr. Tam joined the Company in June 2007. He graduated from The Hong Kong Polytechnic University with a bachelor's degree in accountancy. He is a member of the Hong Kong Institute of Certified Public Accountants and is also a member of Chartered Financial Analyst. Mr. Tam has over 32 years of experience in auditing and corporate advisory services as well as financial management and compliance work. He is an executive director, the chief financial officer and the company secretary of Beijing Enterprises Holdings Limited, a company listed on the Main Board of the Stock Exchange and is an independent non-executive director of Hi Sun Technology (China) Limited, a company listed on the Main Board of the Stock Exchange.

**Li Bin Hai**, aged 68, is an independent non-executive director, a member of each of the remuneration committee, the nomination committee and the audit committee of the Company. He was the former chairman of Poly Real Estate Group Co., Ltd. ("Poly Real Estate", together with its subsidiaries, the "Poly Real Estate Group"), a company listed on the Shanghai Stock Exchange and retired on 31 May 2010 after 20 years at the helm of Poly Real Estate. Before his retirement, he held various positions within the Poly Real Estate Group, including the general manager of Guangzhou Poly Real Estate Development Corporation, director and deputy general manager of Poly Southern Group Co., Ltd. and chief economist of China Poly Group Corporation.



## Senior Management

**Cai Feng Jia**, aged 48, is the chief executive officer of the Group's real estate business and the general manager of the Eastern China District. Mr. Cai graduated from Hunan University with a bachelor's degree in industrial design and is a registered designer. Mr. Cai joined the Group in May 2007 and served as the deputy general manager of Suzhou Real Estate Company, the general manager of Hangzhou Real Estate Company and the general manager of the Eastern China District. He was appointed as the chief executive officer of the Company in December 2017. Before joining the Group, Mr. Cai worked in Guangdong Provincial Architectural Design Institute from 1992 to 2005.

**Luo Xiao Yun**, aged 50, is the director of the legal affairs division of the Group and assistant to the Group's Chairman. Ms. Luo joined the Group in November 2009 and is responsible for the overall operations and management of legal affairs. Ms. Luo graduated from Zhongshan University with a bachelor's degree in laws and subsequently was admitted to practise in the PRC as a qualified solicitor. Ms. Luo is a practising solicitor with extensive working experience in financial investment, corporate law and civil and commercial law. Prior to joining the Group, Ms. Luo began her legal career at the Foreign Economic and Trade Cooperation Committee and was a solicitor in other law firms.

**Lin Kai Ping**, aged 44, is the general manager of commercial affairs division of the Group. Ms. Lin joined the Group in April 2004 and was the general manager of Guangzhou Ningjun Property Management Limited. She is now mainly responsible for the Group's commercial properties management in China. Ms. Lin graduated from the University of International Business and Economics majoring in administration management. Prior to joining to the Group, Ms. Lin worked in a world's leading British property management company. She has 25 years of extensive working experiences in property management.

**Li Ning**, aged 53, is the general manager of product research and development of the Group. Mr. Li joined the Group in November 2010 and is mainly responsible for the development and design of products of the Group. Mr. Li is a grade-one national registered architect and senior architecture design engineer. Mr. Li graduated from Murdoch University with a master of business administration. Mr. Li has 29 years of experience in designing large-scaled integrated architecture and operational management.

**Chen Guang Chuan**, aged 49, is the vice president of the Group. Mr. Chen graduated from Guangzhou Open University, majoring in business administration. Mr. Chen joined the Group in October 2009 and was the general manager of the Hainan office of the Group. He is now mainly responsible for the management of land reserves in China as well as financing management of the Group. Before joining the Group, Mr. Chen was a general manager of a real estate company.

**Jin Yan Long**, aged 38, is the general manager of Northern China District, the general manager of Suzhou Company and the general manager of Beijing Company. Mr. Jin obtained the bachelor's degree in electrical engineering and automation from Nanjing Tech University. Mr. Jin joined the Group in June 2008 and was the engineering manager and the deputy general manager of Hangzhou Company. Currently, Mr. Jin is mainly responsible for the overall management and operation of Northern China District and Suzhou Company of the Group.

## Compliance with the Corporate Governance Code

The Group believes that sound and good corporate governance practices are not only key elements in enhancing investor's confidence and the Company's accountability and transparency, but also important to the Company's long-term success. Key practices adopted by the Company on corporate governance are as follows:

- Develop and review the Company's policies and practices on corporate governance
- Review and monitor the training and continuous professional development of directors and senior management
- Review and monitor the Company's policies and practices on compliance with legal and regulatory requirements

The Group strives to attain and maintain effective corporate governance practices and procedures. The Company has adopted and complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules") throughout the year.

## Board of Directors

The Board is in charge of the task of maximizing the financial performance of the Company and making decisions in the best interest of the Company. The Board is also responsible for formulating business policies and strategies, directing and supervising management of the Group, adopting and monitoring internal business and management control, approving and monitoring annual budgets and business plans, reviewing operational and financial performance, considering dividend policy, reviewing and monitoring the Company's systems of financial control and risk management. The Board has delegated the day-to-day management, administration and operation of the Group and implementation and execution of Board policies and strategies to the executive directors and management of the Company.

As at 31 December 2017, the Board consists of eight members, including five executive directors, Mr. Kong Jian Min (Chairman), Mr. Kong Jian Tao (Chief Executive Officer), Mr. Kong Jian Nan, Mr. Li Jian Ming and Mr. Tsui Kam Tim and three independent non-executive directors, Mr. Lee Ka Sze, Carmelo, JP, Mr. Tam Chun Fai and Mr. Li Bin Hai. Biographical details of the directors are set out on pages 28 to 29. Messrs. Kong Jian Min, Kong Jian Tao and Kong Jian Nan are brothers. Save as disclosed above, there is no family or other material relationship among members of the Board.

All executive directors have entered into service contracts with the Company for a specific term of three years. Under the articles of association of the Company (the "Articles of Association"), the Board is empowered to appoint any person as a director to fill the casual vacancy on or as an additional director of the Board. According to the board diversity policy, the Board considers a candidate's experience, skill and knowledge and competency and ability to fulfill duty of care and diligence and fiduciary duty and recommendation by the nomination committee (if any).

In compliance with Rule 3.10 of the Listing Rules, the Company has appointed three independent non-executive directors, one of whom has appropriate professional qualifications in accounting and financial management. All independent non-executive directors have confirmed their independence of the Company and the Company considers them to be independent in accordance with the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. All independent non-executive directors have entered into letters of appointment with the Company for a specific term of one year. One third of the directors are subject to retirement from office by rotation and re-election at the annual general meeting once every three years in accordance with the Articles of Association.

All directors, including independent non-executive directors, have given sufficient time and effort to the affairs of the Group. Independent non-executive directors have provided the Board with their diversified expertise, experience and professional advice. The directors come from diverse background with varied expertise in finance, legal and business field. The Board believes that the ratio between executive directors and independent non-executive directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of shareholders and the Group. The Board also believes

that the views and participation of the independent non-executive directors in the Board and committee meetings provides independent judgment on the issues relating to strategy, performance, conflict of interest and management process to ensure that the interests of all shareholders are considered and safeguarded. The Company has maintained an updated list of its directors identifying their roles and functions on websites of the Company and the Stock Exchange. Independent non-executive directors are identified as such in all corporate communications that disclose the names of directors of the Company.

All directors have full and timely access to all relevant information in relation to the Group's businesses and affairs as well as unrestricted access to the advice and services of the Company Secretary, who is responsible for providing directors with board papers and related materials. The directors may seek independent professional advice at the Company's expenses in carrying out their duties and responsibilities.

The Company has subscribed appropriate and sufficient insurance coverage on directors' liabilities in respect of legal actions taken against directors arising out of corporate activities.

During the year of 2017, the Board held four regular meetings. At these Board meetings, directors discussed and exchanged their views on significant issues and general operations of the Group, formulated business policies and strategies, reviewed the financial performance, the interim result and the annual result. Monthly updates and quarterly management accounts of the Company were provided by the management to the Board members, gave a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable them to discharge their duties under Rule 3.08 and chapter 13 of the Listing Rules. In addition to Board meetings, the Chairman holds one meeting with independent non-executive directors annually without the presence of executive directors.

The Board, through the audit committee, has conducted a review of the effectiveness of the Group's internal control systems for the year ended 31 December 2016 covering all material financial, operational and compliance controls and risk management functions, and is satisfied that such systems are effective and adequate.

Through the remuneration committee, the Board has reviewed remuneration policy and remuneration packages of individual executive directors, non-executive directors and members of senior management with reference to the goals and objectives of the Company.

Through the nomination committee, the Board, basing on the board diversity policy, has reviewed the structure, size and composition of the Board, the qualification of re-election of the directors under rotation system, the assessment of the independence of independent non-executive directors.



Attendances of the individual directors at the Board meetings and the 2017 AGM are set out as follows:

<b>Directors</b>	<b>Board Meetings Attended/ Number of meeting held</b>	<b>2017 AGM Attended/ Number of meeting held</b>
<i>Executive Directors</i>		
Kong Jian Min ( <i>Chairman</i> )	4/4	1/1
Kong Jian Tao ( <i>Chief Executive Officer</i> )	3/4	0/1
Kong Jian Nan	4/4	0/1
Li Jian Ming	4/4	0/1
Tsui Kam Tim	4/4	1/1
<i>Independent Non-Executive Directors</i>		
Lee Ka Sze, Carmelo	4/4	1/1
Li Bin Hai	4/4	1/1
Tam Chun Fai	4/4	1/1

At least 14 days' notice prior to the date of meeting is given to all directors and an agenda together with Board papers are sent to all directors no less than three days before the date of meeting. All directors are given opportunity to include in the agenda any other matter that they would like to discuss in the meeting. With respect to the Board committee meeting, reasonable prior notice is given to all committee members. All directors and committee members of the Board committee are urged to attend the Board meeting and Board committee meeting in person. For the directors and committee members, who are unable to attend the meeting, participation through electronic means will be arranged and available.

Should a director have a potential conflict of interest in a matter being considered in the Board meeting, he will be abstained from voting. Independent non-executive directors with no conflict of interest will be present at meetings dealing with such conflict of interest issues.

The company secretary assists the chairman of the Board in preparation of the agenda for the Board meeting and Board committee meetings and ensures that all applicable rules and regulations regarding the Board meeting are followed. He also prepares and keeps detailed minutes of each Board meeting and Board committee meeting. Within a reasonable time after each meeting, the draft minutes are circulated to all directors or committee members for comments and the final and approved version of minutes are sent to all directors or committee members for their records. Board committees, including the audit committee, nomination committee and remuneration committee, all follow the applicable principles, practices and procedures used in Board meetings.

During the year ended 31 December 2017, the Company has organised a training session on "Capital Raisings by Listed Issuers" for all the directors of the Company to attend. The company secretary maintains records of training attended by the directors and Mr. Tsui Kam Tim, the company secretary of the Company, during the year of 2017, has undertaken 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

## Chairman and Chief Executive Officer

Mr. Kong Jian Min is the chairman of the Board and Mr. Kong Jian Tao is the chief executive officer of the Company. As disclosed, Messrs. Kong Jian Min and Kong Jian Tao are brothers. Despite their relationship, the divisions of responsibilities between the chairman of the Board and the chief executive officer are clearly divided to ensure a balance of power and authority and to reinforce their independence and accountability.

Mr. Kong Jian Min, being the chairman, is responsible for providing leadership to the Board and ensuring that the Board functions effectively; that directors receive in timely manner adequate information which is complete and reliable and that all directors are properly briefed on issues arising at Board meetings. The chairman also encourages directors to participate actively in and to make a full contribution to the Board so that the Board acts in the best interest of the Company.

Mr. Kong Jian Tao, being the chief executive officer, is responsible for the daily operations of the Company, execution of business policies, strategies, objectives and plans as formulated and adopted by the Board and leading the management of Company.

## Annual Remuneration Payable to the Members of Senior Management

The annual remuneration of the members of the senior management by band for the year ended 31 December 2017 is as follows:

Remuneration Bands (RMB)	Number of Individuals
0–1,000,000	4
1,000,001–2,000,000	2
2,000,001–3,000,000	0
3,000,001–4,000,000	0
4,000,001–5,000,000	0
5,000,001–6,000,000	0
6,000,001–7,000,000	0
7,000,001–8,000,000	0
8,000,001–9,000,000	0

## Compliance With Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors’ securities transactions. Specific enquiries have been made with all directors of the Company regarding any non-compliance with the Model Code and all directors of the Company confirmed that they have complied with the provisions of the Model Code for the financial year ended 31 December 2017.

## Directors’ Responsibility for the Financial Statements

The directors acknowledge their responsibility for preparation of the financial statements for the financial year ended 31 December 2017 which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group’s results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the applicable statutory requirements and accounting standards.

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the “Independent Auditor’s Report” contained in this annual report.

## Board Committees

The Board has established three board committees, namely audit committee, remuneration committee and nomination committee, to oversee the particular aspect of the Company's affairs. The board committees are provided with sufficient resources to discharge their duties. The written terms of reference of each committee was posted on the HKEx website and the website of the Company.

## Audit Committee and Accountability

In compliance with Rule 3.21 of the Listing Rules, an audit committee was established on 11 June 2007 with written terms of reference in accordance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. As at 31 December 2017, the audit committee comprises three members who are independent non-executive directors, namely Mr. Tam Chun Fai (the Chairman of the audit committee), Mr. Lee Ka Sze, Carmelo, JP, and Mr. Li Bin Hai. The audit committee reports to the Board and is delegated by the Board to assess matters related to the financial statements. Under its terms of reference, the audit committee is required to perform and make recommendation to the Board, amongst the others, the following duties:

- making recommendation to the Board on appointment, re-appointment and removal of external auditor of the Group and considering the remuneration and terms of engagement of that external auditor;
- reviewing and monitoring the external auditor's independence and effectiveness of the audit process in accordance with applicable standard;
- reviewing the Group's financial controls, internal control and risk management system;
- reviewing the Group's financial and accounting policies and practices;
- ensuring that management has fulfilled its duty to establish and maintain an effective internal control and risk management systems;
- ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, internal rules and procedures approved by the Board;
- reviewing and monitoring the integrity of the Groups' financial statements, annual reports, accounts and half-year report;
- reviewing and monitoring the Company's policies and practices on corporate governance and the relevant legal and regulatory requirements and their compliances.

The audit committee held two meetings and all minutes were kept by the Company Secretary. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited consolidated financial statement for the year ended 31 December 2016 and the unaudited condensed consolidated interim financial information for the six months ended 30 June 2017. It has also reviewed and recommended to the Board the current policies and practices on corporate governance of the Company, the Company's compliance with the corporate governance code and the disclosure in the corporate governance report. Further, it has reviewed and monitored the training and continuous professional development of directors and senior management, the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function and the current code of conduct applicable to employees and directors and recommended the same to the Board. The audit committee reported that there was no material uncertainty that cast doubt on the Company's going concern ability.



Attendance of individual members of the audit committee at meetings for the year ended 31 December 2017 is set out as follows:

<b>Committee Members</b>	<b>Meetings attended/ Number of meeting held</b>
Tam Chun Fai	2/2
Lee Ka Sze, Carmelo	2/2
Li Bin Hai	2/2

For the year ended 31 December 2017, the external auditor's remuneration in respect of audit services provided to the Group amounted to RMB4,450,000 and fees for non-audit services amounted to an aggregate amount of RMB1,850,000, being the service charge for the review of financial information. Non-audit services mainly consisted of advisory, review and other reporting services.

## Remuneration Committee

The remuneration committee was established with written terms of reference in accordance with the code provisions as set out in Appendix 14 to the Listing Rules. The principal responsibilities of the remuneration committee include but not limited to formulate and make recommendations on remuneration policy and remuneration package of the directors and members of senior management to the Board. As at 31 December 2017, the Remuneration Committee comprises an executive director, namely Mr. Kong Jian Min, and two independent non-executive directors, namely Mr. Tam Chun Fai (Chairman) and Mr. Li Bin Hai.

One remuneration committee meeting was held on 21 March 2017. It has reviewed and formulated policies in respect of remuneration structure of all directors and senior management of the Company, reviewed the remuneration packages of individual executive directors, non-executive directors and senior management and made recommendations to the Board for its consideration and reviewed and approved the management's remuneration proposals with reference to the Board's corporate goals and objectives.

Attendance of individual members of the remuneration committee at meetings for the year ended 31 December 2017 is set out as follows:

<b>Committee Members</b>	<b>Meetings attended/ Number of meeting held</b>
Kong Jian Min	1/1
Tam Chun Fai	1/1
Li Bin Hai	1/1

## Nomination Committee

The nomination committee was established on 11 June 2007. The nomination committee is responsible for, including but not limited to, reviewing the structure, size and composition of the Board and making recommendations to the Board on selection of candidates for directorships. As at 31 December 2017, the nomination committee comprises an executive director, namely Mr. Kong Jian Min (Chairman), and two independent non-executive directors, namely Mr. Tam Chun Fai and Mr. Li Bin Hai.

One nomination committee meeting was held on 21 March 2017. It has reviewed the structure, size and composition (including skills, knowledge and experience) of the Board; has assessed the independence of independent non-executive directors and the retired directors for re-election; and has reviewed whether every director gives sufficient time and attention to the company's affairs. The aforesaid review and assessment were recommended to the Board. The board diversity policy was adopted. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, length of service, or professional experience. Other than the above factors, the Company will also take into account factors based on its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Attendance of individual members of the nomination committee at meetings for the year ended 31 December 2017 is set out as follows:

<b>Committee Members</b>	<b>Meetings attended/ Number of meeting held</b>
Kong Jian Min	1/1
Tam Chun Fai	1/1
Li Bin Hai	1/1

## Internal Control

The Board is responsible for maintaining sound and effective risk management and internal control system in order to safeguard the Group's assets and shareholders' interests and reviewing and monitoring the effectiveness of the Company's risk management and internal control system on a regular basis so as to ensure that internal control and risk management system in place are adequate. The audit committee assists the Board in performing its governance functions as to finance, operation, compliance, risk management and internal control of the Group. The risk control audit department assists the Board and/or the audit committee in reviewing the effectiveness of the risk management and internal control system of the Company on a continual basis. The Board may be informed regularly of material risks that would affect the performance of the Group.

The Group applies the "three lines of defense" model as the basic structure of the risk management and internal control system:

First line of defense: The Group integrates the risk management system in the core business operation practices. Each operating unit is responsible for identifying and assessing its respective risks and formulating appropriate risk mitigating measures within its terms of reference. The implementation of risk mitigating measures is monitored and the conditions of risk management work are reported to the management in a timely manner.

Second line of defense: Each function department of the Group provides and promotes the methodology and instruments of risk management and control for the first line of defense. Meanwhile, significant risks across disciplines, processes and departments are under streamlined management, and risk reminder and control strategy study are conducted on such basis.

Third line of defense: The risk control audit department is mainly responsible for monitoring the compliance with policies and procedures by the Group and its major departments as well as the effectiveness of internal control structure, conducting independent assessment of the financial and operational activities of the Group, and providing constructive advice to relevant management. The risk control audit department organises regular risk assessment of the Group and formulates internal audit plan for the year based on the results of the risk assessment. The results of the audit will also be reported to the audit committee.

The Board conducted a review and assessment of the effectiveness of the Group's internal control system as to financial, operational and compliance control and risk management for the year ended 31 December 2017. The assessment was discussed among the management of the Company, its external auditor and the risk control audit department and reviewed by the audit committee. The Board believes that the existing risk management and internal control system is adequate and effective.

## Shareholder Relations

The Company understands the importance of maintaining effective mutual communication with its shareholders and values every opportunity to communicate with them. The Company has adopted a policy of disclosing clear and relevant information to shareholders through various channels in a timely manner. Annual and interim reports are printed and sent to all shareholders by post as requested. The Company has also complied with the Listing Rules by posting announcements, notices, annual reports, interim reports, shareholders' circulars and monthly updates on the websites of the Stock Exchange and the Company (<https://www.kwgpproperty.com>) for the designated period. Apart from these documents, press releases and newsletters are posted on the Company's website to enhance its transparency. Being constantly updated in a timely manner, the website also contains a wide range of additional information on the Company's business activities.

In addition to publication of information, the annual general meeting of the Company provides a forum for communication between shareholders and directors. The chairman of the Board personally chairs the annual general meeting to ensure shareholders' views are communicated to the Board. Moreover, the briefing on the Company's business and the questions and answer session at the meeting allow shareholders to stay informed of the Group's strategies and goals.

In addition to the chairman of the Board, the chairman of the Board committees, or in their absence, other members of the respective committees, the auditor of the Company and the Hong Kong legal advisor of the Company, are available to answer any queries that shareholders may have. The chairman of the annual general meeting will propose separate resolutions for each issue to be considered at the meeting.

The annual general meeting proceedings are reviewed from time to time to ensure that the Company follows best corporate governance practices and shareholders' rights are preserved. Notice of annual general meeting is delivered to all shareholders at least 20 clear business days prior to the date of the meeting, setting out details of each proposed resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. At the beginning of the meeting, the procedures for demanding and conducting a poll will be explained by the chairman of the Board. Vote results are released by way of publication of an announcement.



## Shareholders' Rights

### Procedures for shareholders to convene an Extraordinary General Meeting ("EGM")

Pursuant to Article 58 of the Articles of Association, any one or more members 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 ("EGM Requisitionists") shall at all times have the right, by written requisition sent to the Board or the Secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition.

The EGM Requisitionists can deposit the written request at the Company's principal place of business in Hong Kong ("Principal Office"), which is presently situated at Units 8503-05A, Level 85, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong. The EGM Requisitionists must state in their request(s) the objects of the EGM, and such request must be signed by all the EGM Requisitionists, any may consist of several documents in like form, each signed by one or more of the EGM Requisitionists.

The share registrar will verify the EGM Requisitionists' particulars in the EGM Requisitionists' request. Promptly after confirmation from the share registrar that the EGM Requisitionists' request is in order, the Company Secretary will arrange the Board to convene an EGM by serving sufficient notice to all the registered shareholders in accordance with all the relevant statutory and regulatory requirements. On the contrary, if the EGM Requisitionists' request is verified not in order, the EGM Requisitionists will be advised of this outcome and accordingly, an EGM will not be convened as requested.

If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the EGM Requisitionists' himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the EGM Requisitionists by reason of the Board's failure to duly convene an EGM shall be reimbursed to the EGM Requisitionists by the Company.

### Procedures for putting forward proposals at general meeting

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law. However, shareholders are requested to follow Article 58 of the Company's Articles of Association for including a resolution at an EGM. The requirements and procedures are set out above. Pursuant to Article 88 of the Company's Articles of Association, no person other than a director retiring at a meeting, shall, unless recommended by the directors for election, be eligible for election as a director at any general meeting unless a notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the registration office provided that the minimum length of the period, during which such notices(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules. The procedures for shareholders of the Company to propose a person for election as director is posted on the Company's website.

### Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the investor relations department which contact details are as follows:

Investor Relations Department  
KWG Property Holding Limited  
Units 8503-05A, Level 85, International Commerce Centre,  
1 Austin Road West, Kowloon, Hong Kong

Fax: (852) 2878 7091  
Email: ir@kwgproperty.com

### Significant changes in the Company's constitutional documents

During the year ended 31 December 2017, there is no change in the constitutional documents of the Company.

## Environmental Management and Governance

As a leading large-scale property developer in China, KWG Property appreciates the importance of environmental management and sustainable development. We are concerned with the impacts brought by climatic change, and we strive to reduce damage to the environment caused by the Group's business activities. The Group undertakes to perform its corporate social responsibilities by minimising carbon emission, facilitating green construction, constructing green buildings and developing green residential communities.

### Carbon emission

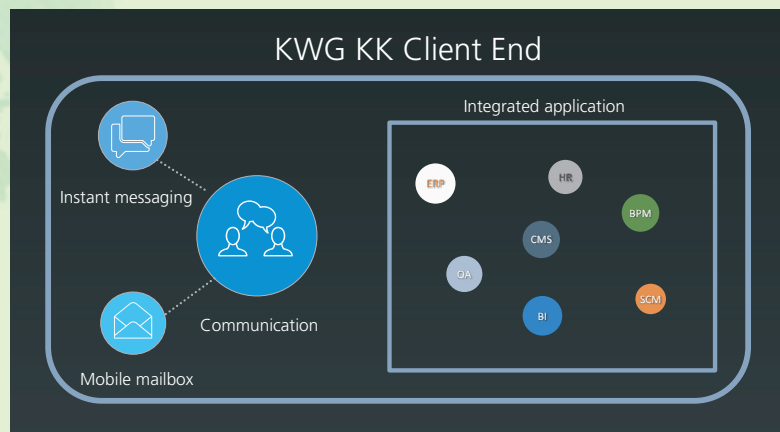
In face of the challenges and impacts on global economy caused by climatic change, the Group has responded to the state environmental policies in a proactive approach, implementing the concepts of energy conservation and environmental protection throughout its operation and management. Since 2016, the Group has been disclosing its total carbon emission from operation each year and formulated corresponding carbon reduction measures, with a view to reducing energy costs, improving working conditions and contributing to the environment.

Construction accounts for nearly 50 percent of the total carbon dioxide emission of the world, and is much higher than the proportion contributed by transportation and industrial sectors. As a property developer, KWG Property bears an unshirkable responsibility to lower carbon emission during the construction cycle. In view of this, the Group has set up a "climatic change and sustainable development service team" in hope of developing low-carbon construction through capacity building, database management and industry analysis. We believe that the establishment of such department will assist us in fostering a comfortable living environment of low consumption with green technology and advocating a sustainable low-carbon lifestyle.

Besides lowering carbon emission during the construction cycle, the Group also endeavours to incorporate green concepts into its office, including the continued optimisation of green working methods such as electronic and paperless office and video conferencing. In 2017, the Group introduced a mobile office OA software named KWG KK. Such brand-new office working mode enables employees to work beyond the constraints of time and location, facilitating work and efficiency, as well as ensuring better coordination of overall operation. Meanwhile, this office working mode allows further reduction of paper usage in office to attain the goal of environmental protection. Furthermore, all offices of the Group employ LED lightings with controls for the energy consumption of air-conditioning for energy conservation, while sensor faucets are installed for water conservation, so as to achieve carbon emission reduction.

### KWG KK — A brand-new mode for mobile office

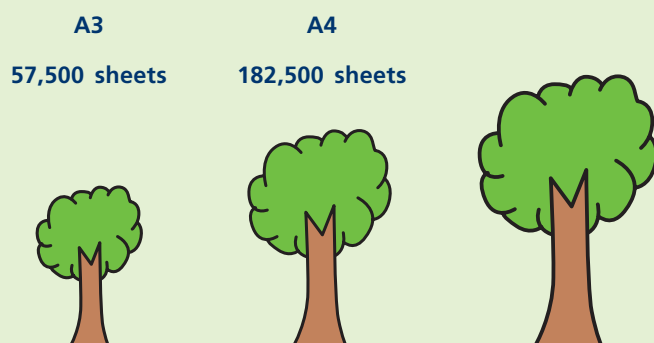
Mobile office software is a product resulted from the integration of the rapidly developing telecommunication industry with the IT industry. It seamlessly emerges the convenient communication and user base afforded by the telecommunication industry and the mature application of software and diversified businesses offered by the IT industry, making it the latest office model subsequent to the computer paperless office and the Internet remote office.



KWG KK is a platform that integrates all the office necessities, including instant messenger, e-mail, client network drive, contact list, application store and others, designed to streamline complex work processes. It mainly targets at mobile users and, to a lesser extent, desktop users. KWG KK allows employees to get rid of the restrictions of time and space, making seamless access anytime, anywhere at their discretion, so that the working efficiency and synergy are enhanced.

In addition, KWG KK enables instant transmission of encrypted files and information, which greatly reduces paper usage in office and further bolsters the paperless office mode.

### Paper usage reduction in 2017



The Group has been striving to improve KWG KK, with a view to realising such functions as online poll and survey through flexible menu layout while encouraging each department to set up its own corporate public account for better inter-department communication. The Group intends to add a new function for staff service in the KWG KK platform to provide meticulous butler services and more external services to staff, such as takeaway ordering, DiDi Chuxing, flight tickets and hotel booking.



In 2017, carbon emission indirectly generated by electricity consumption at Guangzhou headquarters amounted to approximately 396,700 kg, representing a decrease of approximately 4.6% as compared to 416,000 kg in 2016.

Besides, the Group has been actively proposing water conservation among tenants. According to our statistics, total carbon emission indirectly generated by electricity consumption of IFP in Guangzhou, one of the Group's investment properties, in 2017 amounted to 7,634 kg, representing a slight decrease from the same period of 2016. Water consumption in 2017 amounted to approximately 136,000 tonnes, representing a decrease of 3.5% as compared to 141,000 tonnes in 2016. The Group will continue to promote the use of "green office" among tenants.



## Green building

Green building encourages resources saving, environmental protection and carbon emission reduction to a maximal extent during the full life cycle of a building, which encompasses the production of building materials and equipment, and the construction and usage of the building. It has become a predominant trend in the international construction industry. KWG Property takes into account the sustainability of development and environmental impacts of buildings, instead of being concerned solely with commercial interests when we develop commercial projects. We aim to deliver a cosy home with green elements to residents through architectural design, planning and management for the creation of sustainable communities.

### *Showcase developments: (I) The More in Hangzhou*

The More, located at Future Sci-Tech City district in Hangzhou adjacent to the Central Park and Yuhangtang, is one of the key projects of KWG Property in 2017. During site selection, the Group takes into consideration the abundant auxiliary resources in the surroundings to provide residents with convenient access to basic necessities.

KWG Property has made efforts to incorporate green elements throughout the entire construction project. In the preliminary selection of building materials, the construction team opted for building materials with good thermal performance, so as to reduce heat transfer in the exterior protective structures of the buildings to satisfy the relevant regulatory requirements in hot-summer and cold-winter areas.

In order to further lower carbon dioxide emission and waste discharge of the buildings in future, the uppermost six floors of the buildings use solar energy as the major heat source for domestic hot water, with electric heating as a supplementary heat source. In addition, water-saving products are chosen for sanitary wares in residential units while LED lights and energy-saving sensor light switches are used for lighting system to attain the goal of reducing water and electricity consumption.

During the construction process of The More, a consumption monitoring system was set up to measure the water and electricity consumption of the project separately. Data in each table were collected through on-site data collector, transmitted to the managing computer and underwent analysis by energy management software, enabling administrators to adopt flexible energy saving measures for the construction in accordance with actual situation of operation.



### *Showcase developments: (II) The Star in Guangzhou*

Located at Guangzhou International Biotech Island, The Star is another landmark of the Group's green building project. As an iconic high-end commercial office building situated on the Biotech Island, The Star has introduced green elements in its overall architectural design and throughout the construction process.

Our construction team tried to utilise recyclable and reusable building materials in the construction in a bid to minimise energy consumption and environmental pollution caused by the production and processing of new materials. Meanwhile, we used prefabricated structures manufactured in industrialised mode, including beams, pillars, wallboards, stairs and railings, which could reduce waste of materials and shorten construction time.

We are committed to lower carbon emission generated from the usage of buildings in future. To reduce the usage of water, The Star utilises rainwater in indoor toilet flushing, outdoor plant watering, road watering and car washing. In respect of the supply of domestic hot water, the building makes use of renewable energy and encourages the use of heat pump, waste heat of air-conditioners and other types of waste heat as heat source. As for the energy conservation in electric lightings, lighting systems in corridors, staircases, lobby, entrance hall, large space and underground parking employ zoning and timing setting as well as sensing devices to save energy



#### **Green building awards**

- Commercial project located at plot AH041007 in B2 zone, Pazhou, Guangzhou: Green Building Design Label 1-Star Grade A 20 February 2017 (issuing certificate)
- Commercial and office project located at plot ZSCN-A7 in Southern Start-Up Area of Sino-Singapore Guangzhou Knowledge City (self-assigned no.: A8, A9, A10, All commercial office buildings): Green Building Label 1-Star 2017
- Plot J2-2 in Pearl River New Town, Guangzhou (Global Metropolitan Plaza): 2017 Outstanding Engineering Design Award in Guangdong Province (first prize) and 2017 Outstanding Engineering Design (architectural structure) Award in Guangdong Province (second prize)
- Block 2-7 in plot A-01-05 in Unit 08, Nanqiao New City, Feng Xian, Shanghai: Green Building Design 2-Star September 2017
- Block 2-5, 2-6, 2-8, 2-9 in plot A-01-05 in Unit 08, Nanqiao New City, Feng Xian, Shanghai: Green Building Design 1-Star September 2017

### Green construction

Construction debris refers to mud, slag, slurry and other wastes produced during the construction, relocation and renovation of various types of buildings and structures by construction units or individuals and that produced during the interior fitout processes of residents. Based on its source, construction debris can be categorised into five types, namely, earth excavation, road excavation, demolition of old buildings, construction, and production of building materials.

The Group has sought to reuse most of the wastes from construction debris after selection, elimination and crushing as renewable resources. Major types of debris and method of recycling are as follows:

Type of construction debris	Method of recycling
Coarse and fine aggregates produced from concrete and bricks	For the production of concrete of the respective strength, mortar, or construction materials such as building blocks, wallboards and floor tiles. Coarse and fine aggregates can be used as base course of highway after the addition of solidifying materials
Aggregates produced from bricks and tiles	For the production of construction materials such as reclaimed bricks, building blocks, wallboards and floor tiles
Mud	Used in road building, as fills for pile foundation and as foundation
Steel, steel bars and other metal materials	Directly recycled and reused

In addition to waste recycling, the Group has also endeavoured to minimise construction debris generated during the construction process. In the previous year, the measures taken by the Group to reduce construction refuse and the outcome attained are set out below:

- (1) Greater effort has been made in the planning and management of construction work to enhance management standard and reduce waste of construction materials and production of massive refuse from rework due to poor construction quality. On-site management has been strengthened to ensure every part of the construction process is well completed and the delivery of high quality work, so as to reduce the wastes generated effectively.
- (2) Environmental awareness of construction workers has been enhanced. Most of the construction debris in construction site, including dust and excess mortar, concrete and bricks, can be greatly reduced if construction workers pay due attention to clear up the site once the construction is completed, and collect and reuse excess materials on a timely basis. It is not only environmental friendly, but also beneficial in terms of cost saving as waste of materials is minimised.
- (3) New construction technology has been promoted to avoid construction refuse generated due to the destruction and damage incurred during the transportation, storage and installation of construction materials. The precision of structural construction has also been heightened to avoid garbage produced from demolition and revamp. Unnecessary packaging of construction products has been avoided.
- (4) Architectural design is optimised in considering the longevity of the building, the use of structural design that can reduce the construction debris generated, the use of construction materials and reusable materials that can produce less construction debris, the ease of revamp and renovation of building in future with less construction debris generated, as well as the recycling of construction materials and structures when the building is demolished in future.
- (5) Recycling has been adopted in the handling of construction refuse, which is transported to designated place for backfilling by specialised waste transportation vehicles.



## Quality and Safety of Work Environment

KWG Property regards staff as its most important asset. We strive to create a safe, comfortable and efficient work environment that allows employees to bring their abilities into full play. Apart from complying with relevant national laws and regulations, the Group has set up safety management regimes to safeguard the health and safety of its employees and the employees of our contractors.

### Occupational safety and health

We are highly concerned with our staff's health. We arrange annual health check for all employees and has provided insurance for commercial accidents and severe illnesses to all employees since 2015, so that they can enjoy good health and devote to their work for thriving business of the Group.

Construction sites are more dangerous than most of the work environments of other business segments. In view of this, we are especially concerned with safety and health pertaining to our property's construction. Relevant policies have been formulated with a special emphasis on the development of safety examination, training, incentive and accountability regimes to implement effective and systematic management. Supervisors must oversee construction process with reference to the Operational Safety Rules for Construction Workers. In order to raise employees' safety awareness in construction sites, we organise regular safety trainings for the employees working at construction sites. The Group has also enhanced the supervision and management of third-party contractors in safety matters. In selecting contractors, priority will be given to builders who obtained quality and safety management system certification to ensure the health and safety of site workers.

### Training and development

KWG Property would not have become one of the leading property developers in the state without the dedicated work of all employees. Therefore, the Group has comprehensive training systems in place to provide excellent opportunities for advancement, allowing employees to fully develop their talents to contribute to the continued growth of the Group's business.

The Group has developed a range of staff learning and training programmes, such as leadership training, professional skills in customer service enhancement training, engineering professional training, emergency response training, and primary security officer training. Such programmes are aimed at enhancing the professional skills of employees to facilitate their long-term career development.



Number of cases of work injury in 2017:

4



Fatal work casualty:

0



Number of working days lost as a result of work injury/management/construction teams:

256

Name	Target	Purpose
Leadership Training — Valiant General Camp	Persons-in-charge of all functions in the Group, persons-in-charge of district companies and persons-in-charge of human resources	Train managers to lead their subordinates
Professional Skills in Customer Service Enhancement Training	Outstanding primary customer service officers	Enhance the awareness and professional capabilities of primary customer service officers
Engineering Professional Training	Project engineering and customer service officers	Enhance the on-site service skills of engineering and customer service officers
Emergency Response Training	Outstanding security and engineering officers in all companies	Enhance the emergency response ability of security and engineering officers
Critical Moment of Customer Service	Persons-in-charge of all functions in the Group, persons-in-charge of district companies, persons-in-charge of quality control and outstanding project managers	Enhance the ability of quality management and the ability of handling challenges in customer service



Team building activity organised by U Fun in Suzhou — Final Sprint

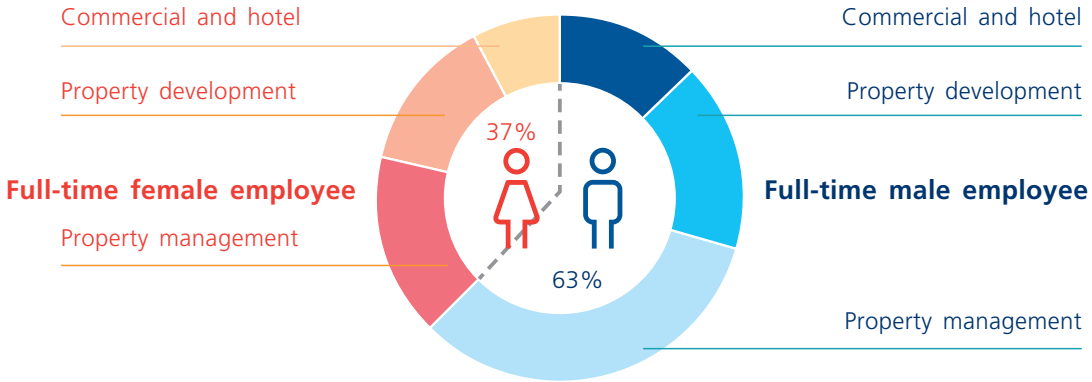


U-Fun Team building activity

**Labour standards**

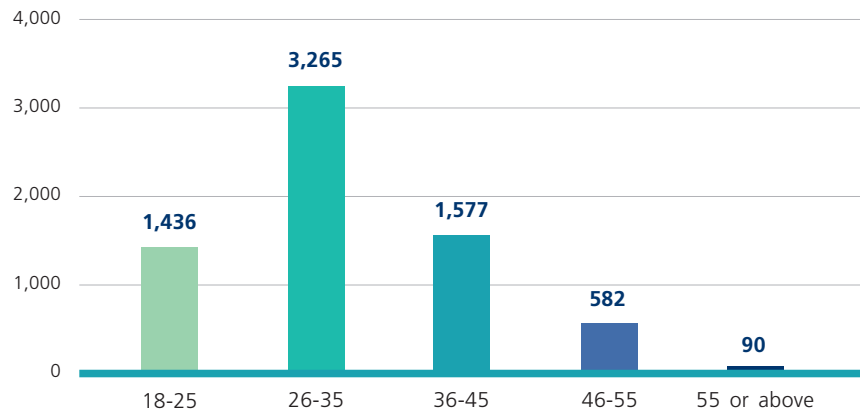
KWG Property welcomes every talent to join the company. Our recruitment policy is to hire competent candidates based on their working experience and professional knowledge and we are committed to forge an equal, inclusive and harmonious work environment. Employees are treated equally regardless of nationality, race, age, gender, marital status or religion. The Group has formulated comprehensive anti-discrimination measures and sought to prevent child labour and forced labour in accordance with the Labour Law. We strive to attract and retain talents with an energetic and harmonious work environment.

**Full-time male and female employees by department**

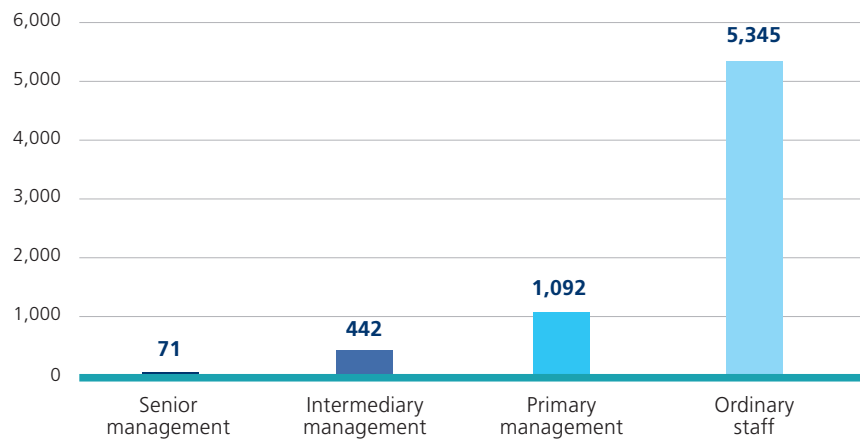




### Number of employees by age group



### Number of employees by job type



With respect to employee benefit, in addition to the contribution to “five insurances and housing provident fund” pursuant to the requirements of relevant laws and regulations, we also offer canteens (or work meal allowance), transportation allowance, allowances for festivals and holidays, as well as annual health check.

### **Anti-corruption**

The Group practices zero tolerance for dishonest behaviours such as corruption, fraud and bribery. The Group has formed a risk control department to conduct internal review centred on risk management that helps the Company identify risks in all business segments and discover risk of fraud on a timely basis.

The Group has also set up a fraud reporting system comprising corruption reporting hotline and mailbox for the handling of complaints in respect of non-compliant behaviours of employees of the Company. The Group has also made greater effort in promoting integrity culture and strengthening integrity awareness of employees, and all new employees are required to sign the "Integrity Responsibility Agreement".

For the sake of intensifying integrity regulation and control on external parties, the Group requests each department in the property, commercial, residential property and hotel operation business segments to annex the "Integrity Cooperation Agreement" to any business contracts to be signed with external parties, to ensure uncorrupted cooperation between the Company and its business associates and partners during the performance of contracts.

### **Supply Chain Management**

We collaborate with various project contractors and product suppliers throughout the course of business. As suppliers are crucial to the design and quality of the products of KWG Property, we value our cooperation relationship with suppliers.

For optimisation of supply chain management, the Group has established a supplier management system, under which an effective registration, evaluation and grading mechanism for suppliers is built. This system enables the Group to attract more high quality suppliers and procure sound development of the Group's regional bidding and procurement business.

### **Product responsibility**

Adhering to a customer-oriented principle, KWG Property is committed to providing comfortable homes to customers with premium property products. We have established a comprehensive project quality supervisory system to ensure product quality, under which the quality of all projects will be overseen in quality supervision station in accordance with the "Disclosure Paper on Construction Quality Supervision". Properties will undergo quality inspection process before delivery and will be jointly examined with property owners on delivery for any quality issue. Issues identified during the inspection will be recorded and rectified collectively within three months after delivery.

### **Staff Care and Interaction**

As our endeavour to create a cheerful work environment for our staff, the Group has been enthusiastic in organising various activities for employees to provide them with refreshing pastimes as well as opportunities to mingle with colleagues from other departments.

Staff activities in 2017



*New year party for year of the dog*



*Celebration for mid-autumn festival*



## Charity and Community Participation

As the growth of an enterprise is intimately tied to the support of the society, KWG Property has always regarded the charity cause as a matter of undisputable responsibility with gratitude to the society. Since 2007, KWG Property has been actively participating in charity including education, poverty aid, disaster relief and municipal infrastructure construction. It has built a total of 18 Art Labs in mountain areas, with donations in cash and in kind amounting to RMB160 million in aggregate.

### A ray of hope shining through the KWG Art Lab

With education as a key focus of KWG Property's charity cause, it has been concerned with the education in impoverished areas and the growth of teenagers. Through the building of schools, setting up education funds, building art labs in rural areas and other measures, we have been seeking to improve the quality and promote the popularisation of education, so as to facilitate balanced allocation of cultural resources and spread knowledge to more children.

KWG Property bears the mission of encouraging joint efforts from the society in charity cause on the funds donated by the corporates and manpower contributed by property owners. Commencing operation in 2013, KWG Art Lab serves as an effective platform on which resources from all parties are integrated to allow property owners, customers and other well-wishers in the society to contribute and participate in charity. It is intended to build art libraries in a hundred village schools across the nation under the KWG Art Lab Project, with 18 KWG Art Labs currently set up in Guangdong, Sichuan, Jiangsu, Beijing, Hainan and Guizhou and a massive volume of books acquired through donations. These libraries, offering numerous creative books, have provided a better place for reading and facilitated the nurturing of interests in creative design of children by broadening their horizon and exploring their infinite creativity.

### 2017 KWG Art Lab Project

In 2017, the KWG Art Lab Project extended the reach of its charity efforts in Hainan Province. Through disseminating knowledge and fostering dreams, KWG Art Lab is committed to bring hope to every corner of the country.

### Renovation of library

A reading place with vivid colour design that could stimulate artistic imagination of children was built through such procedures as on-site surveying of classrooms in local schools, drafting, ordering book shelves, desks and chairs, selecting environmental oil paint and decorating walls with colour paintings.

### Construction of affectionate community with property owners

KWG Art Lab Project drives the creation of charity culture in the community via book donations and recruitment of activity volunteers among property owners, engaging them in the spreading of love and hope. Book donation stations have been set up in residential communities and office buildings of each project to encourage property owners to donate culture and art books for teenagers and children. Meanwhile, property owners who have the intention to take part in library construction and visit children have been recruited from communities to go to village schools together as activity members. Concerted efforts have been made to complete the construction of libraries, during which the volunteers helped set up book shelves, place books by category, decorate walls, as well as give away books, stationery and supplies purchased and donate to students.

KWG Property believes that greater social benefit will be attained with more people called upon and mobilised to join charity events. Joining hands with property owner representatives, well-wishers in the society and media reporters, we strive to bring artistic inspiration and knowledge to children in poverty areas under the KWG Art Lab Project, so as to deliver hopes and dreams in life.

### 2017 KWG Art Lab: Family Charity Walk in Warm Winter

On 15 December 2017, KWG Property organised an event themed Snapshot for Warm Family Reunion — KWG Art Lab in Guangxi mountain area: Family Charity Walk in Warm Winter, aiming to organise warm reunion for families in mountain areas in winter at the dawn of Chinese New Year.

In this activity, our staff paid visit to several poverty-stricken families and brought to them supplies and necessities such as cotton quilts, snacks, rice as well as grain and oil to keep warm in winter. Also, photographer of our team took pictures for each family to capture the precious moment of family reunion in Chinese New Year. After taking family photos, the team of KWG Art Lab proceeded to local schools to share stationery and entertainment supplies to children in mountain areas and play games with them.

Organising warm reunion for families in mountain areas amid severe winter is a continuation of KWG Property's corporate philosophy of "build home with heart, create future with aspiration" in the aspect of social commonweal. The activities held under 2017 KWG Art Lab Project were innovated in terms of form and content as compared to the previous year, shifting the caring target from children to families in mountain areas. Through pulling together more power from the society while showing greater concern for the left-behind elders and children, greetings and blessings from outside were passed on to families in the mountains. KWG Property will remain committed to the cause of charity going forward, as it seeks to exert itself to contribute to the society.



The directors are pleased to present their report and the audited financial statements for the year ended 31 December 2017.

## Principal Activities and Business Review

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

Further discussion and analysis of the business review required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the "Management Discussion and Analysis" set out on pages 12 to 26 of the annual report. This discussion forms part of this "Report of the Directors".

## Results and Dividends

The Group's profit for the year ended 31 December 2017 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 67 to 170.

The Board of the Company has proposed the payment of a final dividend of RMB31 cents per ordinary share with scrip option for the year ended 31 December 2017. Including interim dividend, full year dividend was equivalent to RMB41 cents per ordinary share.

The proposed final dividend shall be declared in RMB and payable in cash in Hong Kong dollars, if approved by the shareholders at the forthcoming annual meeting, expected to be paid on or around 2 August 2018 to the shareholders on the register of members of the Company on 20 June 2018.

The eligible shareholders will have the right to elect to receive the final dividend wholly or partly in the form of new fully paid shares instead of cash (the "Scrip Dividend Arrangement").

A circular containing details of the Scrip Dividend Arrangement, where available, and an election form (where applicable) are expected to be despatched to the shareholders on or around 2 July 2018. The Scrip Dividend Arrangement is also conditional upon the Stock Exchange's granting the listing of, and permission to deal in, the new shares to be issued pursuant thereto.

## Summary Financial Information

A financial summary of the Group is set out on page 172. This summary does not form part of the audited financial statements.

## Property, Plant and Equipment and Investment Properties

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 13 and 14 to the financial statements, respectively. Further details of the Group's major investment properties are set out on page 171.

## Properties under Development

Details of the properties under development of the Group during the year are set out in note 18 to the financial statements. Further details of the Group's major properties under development are set out on page 171.

## Completed Properties Held for Sale

Details of the completed properties held for sale of the Group during the year are set out in note 19 to the financial statements. Further details of the Group's major completed properties held for sale are set out on page 171.

## Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year are set out in notes 29 and 30 to the financial statements.

## Pre-emptive Rights

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

## Purchase, Redemption or Sale of Listed Securities of the Company

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

## Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 45 and note 31 to the financial statements and in the consolidated statement of changes in equity respectively.

## Distributable Reserves

At 31 December 2017, the Company's reserves available for distribution, calculated in accordance with article 146 of its articles of association, amounted to approximately RMB4,257,837,000, of which approximately RMB978,098,000 has been proposed as a final dividend and approximately RMB305,380,000 has been declared as an interim dividend for the year.

## Charitable Donations

The charitable donations made by the Group during the year amounted to approximately RMB7,719,000.



## Major Customers and Suppliers

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

In the year under review, payments attributable to the Group's largest contractor and five largest contractors amounted to approximately 10.1% and 29.0% respectively, of the total payments under construction contracts for the year. Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 12.3% and 27.9% respectively, of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest contractors and suppliers.

## Directors

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

### Executive Directors:

Mr. Kong Jian Min (*Chairman*)  
Mr. Kong Jian Tao (*Chief Executive Officer*)  
Mr. Kong Jian Nan  
Mr. Li Jian Ming  
Mr. Tsui Kam Tim

### Independent Non-executive Directors:

Mr. Lee Ka Sze, Carmelo, JP  
Mr. Tam Chun Fai  
Mr. Li Bin Hai

In accordance with Articles 86(3), 87(1) and 87(2) of the Company's articles of association, Messrs. Kong Jian Nan, Tam Chun Fai and Li Bin Hai will retire from office as executive director(s) or independent non-executive director of the Company by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are appointed for a period of one year.

The Company has received annual confirmations of independence from Messrs. Lee Ka Sze, Carmelo, JP, Tam Chun Fai and Li Bin Hai, and as at the date of this report still considers them to be independent.

## Directors' and Senior Management's Biographical Details

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 28 to 30 of the annual report.

## Changes in Information of Directors

None of the Directors had a change in any of the information required to be disclosed pursuant to the paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

## Directors' Service Contracts

Each of Messrs. Kong Jian Min, Kong Jian Tao, Kong Jian Nan, Li Jian Ming and Tsui Kam Tim has a service contract with the Company for a term of three years and each of these service contracts is subject to termination by either party giving not less than three months' written notice.

Each of the independent non-executive director has entered into a letter of appointment with the Company for a term of one year and is subject to termination by either party giving not less than three months' written notice.

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

## Directors' Remuneration

The directors' emoluments are subject to the recommendations of the remuneration committee and the Board's approval. The emoluments are determined by the Board with reference to directors' duties, responsibilities and performances and the results of the Group.

## Interests and Short Positions of the Directors and Chief Executive in Shares and Underlying Shares

As at 31 December 2017, the interests and short positions of the directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

### Long positions in ordinary shares of the Company:

Name of Director	Long position/ Short position	Nature of interests	Number of shares held (Note 1)	Approximate percentage of the issued share capital (Note 9)
Kong Jian Min (Notes 3, 4 and 5)	Long position	Interest of controlled corporations	1,943,555,652	61.60%
Kong Jian Tao (Notes 3, 4 and 6)	Long position	Interest of controlled corporations	1,688,609,587	53.52%
Kong Jian Nan (Notes 3 and 4)	Long position	Interest of controlled corporations	1,687,500,000	53.48%
Tam Chun Fai	Long position	Beneficial owner	30,000	0.001%
Lee Ka Sze, Carmelo	Long position	Beneficial owner	30,000	0.001%

Notes:

- Share(s) of HK\$0.10 each in the capital of the Company.
- As at 31 December 2017, the number of shares in issue was 3,155,155,055 shares.
- Plus Earn Consultants Limited (“**Plus Earn**”) is legally and beneficially owned as to 76.5% by Kong Jian Min, as to 15% by Kong Jian Tao and as to 8.5% by Kong Jian Nan. Therefore, Kong Jian Min, Kong Jian Tao and Kong Jian Nan are deemed to be interested in 1,612,500,000 shares through their interests in Plus Earn. Each of Kong Jian Min, Kong Jian Tao and Kong Jian Nan is a director of Plus Earn.
- Right Rich Consultants Limited (“**Right Rich**”) is legally and beneficially owned as to 76.5% by Kong Jian Min, as to 15% by Kong Jian Tao and as to 8.5% by Kong Jian Nan. Therefore, Kong Jian Min, Kong Jian Tao and Kong Jian Nan are deemed to be interested in 75,000,000 shares through their interests in Right Rich. Each of Kong Jian Min, Kong Jian Tao and Kong Jian Nan is a director of Right Rich.
- Hero Fine Group Limited (“**Hero Fine**”) is legally and beneficially owned as to 100% by Kong Jian Min and Kong Jian Min is therefore deemed to be interested in 256,055,652 shares through his interest in Hero Fine. Kong Jian Min is the sole director of Hero Fine.
- Excel Wave Investments Limited (“**Excel Wave**”) is legally and beneficially owned as to 100% by Kong Jian Tao and Kong Jian Tao is therefore deemed to be interested in 1,109,587 shares through his interest in Excel Wave. Kong Jian Tao is the sole director of Excel Wave.

**Long positions in shares and underlying shares of associated corporations:**

<b>Name of Director</b>	<b>Associated Corporations</b>	<b>Number of shares held in associated corporations</b>	<b>Percentage of shareholding in the associated corporations</b>
Kong Jian Min	Plus Earn	765	76.50%
	Right Rich	765	76.50%
Kong Jian Tao	Plus Earn	150	15.00%
	Right Rich	150	15.00%
Kong Jian Nan	Plus Earn	85	8.50%
	Right Rich	85	8.50%

Save as disclosed above or under the section headed "Share Option Scheme" on page 142, as at 31 December 2017, none of the directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were deemed or taken to have under provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

**Interests and Short Positions of Shareholders Disclosable under the SFO**

So far as is known to any directors or chief executive of the Company, as at 31 December 2017, other than the interests and short positions of the directors or the chief executive of the Company as disclosed in the section "Interests and Short Positions of the Directors and the Chief Executive in Shares and Underlying Shares" above and the section "Share Option Scheme" below, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

**Interests and Short Positions of Substantial Shareholder(s) in the Shares and Underlying Shares of the Company****Long positions in the shares of the Company:**

<b>Name</b>	<b>Capacity</b>	<b>Number of shares held (Note 1)</b>	<b>Approximate percentage of the issued share capital (Note 3)</b>
Plus Earn (Note 3)	Beneficial owner	1,612,500,000	51.11%



Notes:

1. Share(s) of HK\$0.10 each in the capital of the Company.
2. As at 31 December 2017, the number of shares in issue was 3,155,155,055 shares.
3. Plus Earn is legally and beneficially owned as to 76.5% by Kong Jian Min, as to 15% by Kong Jian Tao and as to 8.5% by Kong Jian Nan.

Save as disclosed above, as at 31 December 2017, there was no other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

## Share Option Scheme

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to the shareholders' resolution passed on 11 June 2007. The Share Option Scheme ended on 2 July 2017.

During the year ended 31 December 2017, no share options were exercised, granted, cancelled or lapsed.

## Valuation of Share Options

The Company has been using the Black-Scholes model and binomial model (the "Models") to value the share options granted. Details of the key parameters used in the Models and the corresponding fair values of the options granted under the Scheme are set out in note 30 to the financial statements.

## Contract of Significance

No contracts of significance in relation to the Company's business to which the Company, or its subsidiaries was a party and in which a director has a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report.

## Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, the Board confirms that the Company has maintained a sufficient public float as required by the Listing Rules during the year under review.

## Directors' Interests in a Competing Business

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

## Auditor

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

## Disclosures Pursuant to Rule 13.18 of the Listing Rules

On 27 January 2017, the Company as borrower, and certain of the subsidiaries of the Company, as original guarantors, entered into a facility agreement (the "Facility Agreement") with, among others, Hang Seng Bank Limited, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank (Hong Kong) Limited, The Bank of East Asia, Limited and Chong Hing Bank Limited as original lenders, Hang Seng Bank Limited, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank (Hong Kong) Limited and The Bank of East Asia, Limited, as mandated lead arrangers and bookrunners and Standard Chartered Bank (Hong Kong) Limited as agent in relation to a transferrable dual currency term loan facility in the amount of HK\$1,485,000,000 and US\$150,000,000 respectively with a greenshoe option of US\$250,000,000 to the Company for a term of 48 months commencing from the date of the Facility Agreement.

Pursuant to the terms of the Facility Agreement, the Company has undertaken to procure that Mr. Kong Jian Min, being the controlling shareholder of the Company, at all times: (i) beneficially owns not less than 35% of the entire issued share capital, voting rights and control of the Company; (ii) is the single largest shareholder of the Company; and (iii) is the chairman of the board of directors of the Company. Failure to comply with any of the above undertakings will constitute an event of default under the Facility Agreement. Further details of the transaction are disclosed in the announcement of the Company dated 27 January 2017.

ON BEHALF OF THE BOARD

**Kong Jian Min**  
*Chairman*

Hong Kong  
23 March 2018



**To the shareholders of KWG Property Holding Limited**  
(Incorporated in the Cayman Islands with limited liability)

## Opinion

We have audited the consolidated financial statements of KWG Property Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 67 to 170, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

## Basis for opinion

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



**To the shareholders of KWG Property Holding Limited**

(Incorporated in the Cayman Islands with limited liability)

**Key audit matters**

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

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

Key audit matter	How our audit addressed the key audit matter
<p><i>Revaluation of investment properties</i></p> <p>Investment properties of the Group are stated at fair value at the end of each reporting period, which comprise completed investment properties and investment properties under construction. Changes in fair values of investment properties are recorded in profit or loss in the year in which they arise. As at 31 December 2017, the carrying amount of investment properties of the Group was approximately RMB13,718,600,000.</p> <p>The investment properties of the Group are revalued individually at the end of each reporting period by independent professional valuer which involves significant estimations and assumptions, including market rent and capitalisation rates, and the fair values of the investment properties are sensitive to these management's estimates and assumptions.</p> <p>Relevant disclosures are included in notes 2.4, 3 and 14 to the consolidated financial statements.</p>	<p>The audit procedures we performed on the revaluation of investment properties, among others, included:</p> <ul style="list-style-type: none"> <li>• we obtained an understanding of the work of independent professional valuer engaged by the Company, considered the objectivity, independence and expertise of the valuer;</li> <li>• we involved our valuation specialists to evaluate the valuation techniques used and tested the underlying key estimations and assumptions for selected samples through enquiry with management and by reference to the historical information and open market information; and</li> <li>• we assessed the adequacy of disclosures in relation to the revaluation of investment properties, including fair value hierarchy and the valuation techniques used and the key inputs to the valuation of investment properties.</li> </ul>





**To the shareholders of KWG Property Holding Limited**  
(Incorporated in the Cayman Islands with limited liability)

## **Other information included in the Annual Report**

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

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

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



**To the shareholders of KWG Property Holding Limited**

(Incorporated in the Cayman Islands with limited liability)

## **Responsibilities of the directors for the consolidated financial statements**

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

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

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

## **Auditor's responsibilities for the audit of the consolidated financial statements**

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

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

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

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



**To the shareholders of KWG Property Holding Limited**

(Incorporated in the Cayman Islands with limited liability)

**Auditor's responsibilities for the audit of the consolidated financial statements** *(continued)*

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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



**To the shareholders of KWG Property Holding Limited**

(Incorporated in the Cayman Islands with limited liability)

**Auditor's responsibilities for the audit of the consolidated financial statements** *(continued)*

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Man Kit.

**Ernst & Young**

*Certified Public Accountants*

22/F CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

23 March 2018



# Consolidated Statement of Profit or Loss

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
<b>REVENUE</b>	5	<b>11,543,072</b>	8,865,329
Cost of sales		<b>(7,523,140)</b>	(5,794,980)
Gross profit		<b>4,019,932</b>	3,070,349
Other income and gains, net	5	<b>632,914</b>	731,732
Selling and marketing expenses		<b>(432,506)</b>	(322,768)
Administrative expenses		<b>(936,814)</b>	(969,196)
Other operating expenses, net		<b>(501,770)</b>	(118,183)
Fair value gains on investment properties, net	14	<b>1,204,881</b>	165,900
Finance costs	7	<b>(329,505)</b>	(159,875)
Share of profits and losses of:			
Associates		<b>(2,514)</b>	–
Joint ventures		<b>1,900,410</b>	2,129,540
<b>PROFIT BEFORE TAX</b>	6	<b>5,555,028</b>	4,527,499
Income tax expenses	10	<b>(1,950,015)</b>	(1,065,893)
<b>PROFIT FOR THE YEAR</b>		<b>3,605,013</b>	3,461,606
Attributable to:			
Owners of the Company		<b>3,620,071</b>	3,464,714
Non-controlling interests		<b>(15,058)</b>	(3,108)
		<b>3,605,013</b>	3,461,606
<b>Earnings per share attributable to owners of the Company – Basic and diluted</b>	12	<b>RMB117 cents</b>	RMB115 cents

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
<b>PROFIT FOR THE YEAR</b>	<b>3,605,013</b>	3,461,606
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation into presentation currency	<b>1,032,056</b>	(982,292)
Share of exchange differences on translation of joint ventures	<b>254,141</b>	(238,896)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	<b>1,286,197</b>	(1,221,188)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation into presentation currency	<b>119,849</b>	19,076
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	<b>119,849</b>	19,076
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX</b>	<b>1,406,046</b>	(1,202,112)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>5,011,059</b>	2,259,494
Attributable to:		
Owners of the Company	<b>5,026,117</b>	2,262,602
Non-controlling interests	<b>(15,058)</b>	(3,108)
	<b>5,011,059</b>	2,259,494

# Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	4,173,873	3,890,621
Investment properties	14	13,718,600	10,533,100
Land use rights	15	1,071,688	1,040,728
Interests in associates	16	740,629	–
Interests in joint ventures	17	32,091,230	18,998,141
Deferred tax assets	27	1,410,904	1,332,532
<b>Total non-current assets</b>		<b>53,206,924</b>	35,795,122
<b>CURRENT ASSETS</b>			
Properties under development	18	30,908,445	38,503,341
Completed properties held for sale	19	6,540,415	6,866,193
Trade receivables	20	535,665	156,775
Prepayments, deposits and other receivables	21	2,963,398	2,200,705
Due from a joint venture	17	30,065	30,059
Tax recoverables	22(a)	292,805	288,043
Restricted cash	23	1,268,364	1,130,660
Cash and cash equivalents	23	39,198,957	25,770,912
<b>Total current assets</b>		<b>81,738,114</b>	74,946,688
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	24	2,644,265	5,753,979
Other payables and accruals	25	8,455,136	9,838,964
Due to joint ventures	17	27,929,009	21,530,757
Interest-bearing bank and other borrowings	26	3,740,551	4,753,515
Tax payables	22(b)	6,638,355	5,431,370
<b>Total current liabilities</b>		<b>49,407,316</b>	47,308,585
<b>NET CURRENT ASSETS</b>		<b>32,330,798</b>	27,638,103
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>85,537,722</b>	63,433,225
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	26	55,904,620	38,196,455
Deferred tax liabilities	27	1,385,367	1,225,816
Deferred revenue	28	2,042	2,042
<b>Total non-current liabilities</b>		<b>57,292,029</b>	39,424,313
<b>NET ASSETS</b>		<b>28,245,693</b>	24,008,912

31 December 2017

	Note	2017 RMB'000	2016 RMB'000
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital	29	302,355	293,590
Reserves		27,304,929	23,656,855
		<b>27,607,284</b>	23,950,445
<b>Non-controlling interests</b>		<b>638,409</b>	58,467
<b>TOTAL EQUITY</b>		<b>28,245,693</b>	24,008,912

**Kong Jian Min**  
Director

**Kong Jian Tao**  
Director



# Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Attributable to owners of the Company										
	Notes	Issued capital	Share premium account	Reserve funds	Exchange fluctuation reserve	Equity-settled share option reserve	Capital reserve	Retained profits	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016		288,663	7,055,349	1,007,536	(475,540)	4,836	(57,546)	14,518,111	22,341,409	17,507	22,358,916
Profit for the year		-	-	-	-	-	-	3,464,714	3,464,714	(3,108)	3,461,606
Other comprehensive loss for the year:											
Exchange differences on translation into presentation currency		-	-	-	(963,216)	-	-	-	(963,216)	-	(963,216)
Share of exchange differences on translation of joint ventures		-	-	-	(238,896)	-	-	-	(238,896)	-	(238,896)
Total comprehensive income for the year		-	-	-	(1,202,112)	-	-	3,464,714	2,262,602	(3,108)	2,259,494
Share options exercised	29, 30	3	143	-	-	(29)	-	-	117	-	117
Transfer of equity-settled share option reserve upon the forfeiture or expiry of share options		-	-	-	-	(4,807)	-	4,807	-	-	-
Acquisition of subsidiaries	33	-	-	-	-	-	-	-	-	46,270	46,270
Capital contribution from a non-controlling shareholder of a subsidiary		-	-	-	-	-	-	-	-	17,800	17,800
Derecognition of a subsidiary	35	-	-	-	-	-	-	-	-	(20,002)	(20,002)
Final 2015 dividend declared	29	-	(868,980)	-	-	-	-	-	(868,980)	-	(868,980)
Shares issued as scrip dividend during the year	29	4,924	210,373	-	-	-	-	-	215,297	-	215,297
Transfer from retained profits	31	-	-	163,458	-	-	-	(163,458)	-	-	-
At 31 December 2016		293,590	6,396,885	1,170,994	(1,677,652)	-	(57,546)	17,824,174	23,950,445	58,467	24,008,912

## Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Notes	Attributable to owners of the Company							Non-controlling interests	Total equity	
		Issued capital	Share premium account	Reserve funds	Exchange fluctuation reserve	Asset revaluation reserve <sup>#</sup>	Capital reserve	Retained profits			
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			Total
At 1 January 2017		293,590	6,396,885	1,170,994	(1,677,652)	-	(57,546)	17,824,174	23,950,445	58,467	24,008,912
Profit for the year		-	-	-	-	-	-	3,620,071	3,620,071	(15,058)	3,605,013
Other comprehensive income for the year:											
Exchange differences on translation into presentation currency		-	-	-	1,151,905	-	-	-	1,151,905	-	1,151,905
Share of exchange differences on translation of joint ventures		-	-	-	254,141	-	-	-	254,141	-	254,141
Total comprehensive income for the year		-	-	-	1,406,046	-	-	3,620,071	5,026,117	(15,058)	5,011,059
Acquisition of a subsidiary		-	-	-	-	-	-	-	-	20,000	20,000
Capital contribution from a non-controlling shareholder of a subsidiary		-	-	-	-	-	-	-	-	575,000	575,000
Final 2016 dividend declared	29	-	(1,557,439)	-	-	-	-	-	(1,557,439)	-	(1,557,439)
Shares issued as scrip dividend during the year	29	8,765	455,601	-	-	-	-	-	464,366	-	464,366
Transfer from retained profits	31	-	-	239,271	-	-	-	(239,271)	-	-	-
Interim 2017 dividend		-	-	-	-	-	-	(305,380)	(305,380)	-	(305,380)
Gain on property revaluation, net of tax		-	-	-	-	29,175	-	-	29,175	-	29,175
At 31 December 2017		302,355	5,295,047*	1,410,265*	(271,606)*	29,175*	(57,546)*	20,899,594*	27,607,284	638,409	28,245,693

<sup>#</sup> The asset revaluation reserve arose from the gain on property revaluation as a result of the change in use from owner-occupied properties to investment properties.

\* These reserve accounts comprise the consolidated reserves of approximately RMB27,304,929,000 (2016: approximately RMB23,656,855,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>5,555,028</b>	4,527,499
Adjustments for:			
Finance costs	7	<b>329,505</b>	159,875
Foreign exchange losses/(gains) arising from domestic corporate bonds		<b>398,564</b>	(334,988)
Share of profits and losses of associates		<b>2,514</b>	–
Share of profits and losses of joint ventures		<b>(1,900,410)</b>	(2,129,540)
Interest income	5	<b>(323,340)</b>	(169,677)
Loss/(gain) on disposal of investment properties, net	6	<b>2,981</b>	(5)
(Gain)/loss on disposal of items of property, plant and equipment	6	<b>(879)</b>	19
Gain on disposal of a subsidiary	5, 34	–	(44,708)
Gain on acquisition of a subsidiary	5, 33	–	(57,198)
Depreciation	6	<b>141,814</b>	144,414
Amortisation of land use rights	6	<b>5,464</b>	5,478
Fair value gains on investment properties, net	14	<b>(1,204,881)</b>	(165,900)
Premium paid on early redemption of senior notes	6	<b>174,540</b>	117,667
		<b>3,180,900</b>	2,052,936
Increase in properties under development		<b>(11,008,559)</b>	(18,214,400)
Decrease in completed properties held for sale		<b>325,778</b>	139,938
(Increase)/decrease in trade receivables		<b>(378,890)</b>	117,710
(Increase)/decrease in prepayments, deposits and other receivables		<b>(2,487,681)</b>	708,366
Increase in an amount due from a joint venture		<b>(6)</b>	(653)
(Increase)/decrease in restricted cash		<b>(137,704)</b>	488,947
(Decrease)/increase in trade and bills payables		<b>(3,109,696)</b>	4,940,021
Increase in other payables and accruals		<b>1,091,901</b>	1,163,823
Increase in amounts due to joint ventures		<b>6,398,252</b>	8,404,932
		<b>(6,125,705)</b>	(198,380)
Cash (used in)/generated from operations		<b>(6,125,705)</b>	(198,380)
Interest received	5	<b>323,340</b>	169,677
Interest paid		<b>(2,956,856)</b>	(2,230,970)
Corporate income tax paid		<b>(568,897)</b>	(324,073)
Land appreciation tax paid		<b>(141,346)</b>	(228,917)
		<b>(9,469,464)</b>	(2,812,663)
Net cash flows used in operating activities		<b>(9,469,464)</b>	(2,812,663)

## Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Net cash flows used in operating activities		<b>(9,469,464)</b>	(2,812,663)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		<b>(410,531)</b>	(321,300)
Investments in joint ventures		<b>(585,970)</b>	(66,500)
Acquisition of subsidiaries	33	<b>(127,633)</b>	19,587
Disposal of a subsidiary	34	–	43,428
Derecognition of subsidiaries	35	<b>(333,228)</b>	(1,101,135)
Proceeds from disposal of investment properties		–	687
Proceeds from disposal of items of property, plant and equipment		<b>1,852</b>	971
Investment in associates		<b>(25,725)</b>	–
Advance to associates		<b>(717,418)</b>	–
Repayment from joint ventures		<b>88,942</b>	4,741,923
Dividend received from a joint venture		<b>66,500</b>	–
Net cash flows (used in)/from investing activities		<b>(2,043,211)</b>	3,317,661
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of new shares	29	–	117
Proceeds from issue of domestic corporate bonds		<b>5,959,420</b>	20,264,070
Proceeds from issue of senior notes		<b>9,959,306</b>	–
Early redemption of senior notes		<b>(4,424,935)</b>	(2,949,891)
New bank loans		<b>23,306,096</b>	9,067,616
Repayment of bank loans		<b>(8,661,300)</b>	(11,148,492)
Decrease in an amount due to a joint venture		–	(800,000)
Contribution from the non-controlling shareholder of a subsidiary		<b>575,000</b>	17,800
Dividend paid		<b>(1,093,073)</b>	(653,683)
Effect of foreign exchange rate changes, net		<b>(648,569)</b>	504,789
Net cash flows from financing activities		<b>24,971,945</b>	14,302,326
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		<b>25,770,912</b>	10,946,470
Effect of foreign exchange rate changes, net		<b>(31,225)</b>	17,118
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>39,198,957</b>	25,770,912
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		<b>14,488,739</b>	16,266,212
Non-pledged time deposits with original maturity of less than three months when acquired	23	<b>24,710,218</b>	9,504,700
Cash and cash equivalents	23	<b>39,198,957</b>	25,770,912



## 1. Corporate and Group Information

KWG Property Holding Limited (“KWG Property” or the “Company”) is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to as the “Group”) was involved in the following principal activities:

- Property development
- Property investment
- Hotel operation
- Property management

In the opinion of the directors, the immediate and ultimate holding company of the Company is Plus Earn Consultants Limited, which was incorporated in the British Virgin Islands.

### Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Happy Clear Consultants Limited	British Virgin Islands/ Hong Kong	US\$1,000	100	–	Investment holding
Reach Luck Consultants Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Boom Faith International Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Rising Wave Enterprises Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Good Excel Enterprises Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Prime Way Enterprises Limited	British Virgin Islands/ Hong Kong	US\$1	100	–	Investment holding
Hugeluck Investments Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding

## 1. Corporate and Group Information *(continued)*

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Hejing Real Estate Development Limited ("Guangzhou Hejing")**	PRC	US\$99,000,000	–	100	Property development
Guangzhou Hejing Meifu Real Estate Development Limited <sup>#</sup>	PRC	US\$12,930,000	–	100	Property development
Guangzhou Hejing Yingfu Real Estate Development Limited <sup>#</sup>	PRC	RMB35,000,000	–	100	Property development
Guangzhou Xinhengchang Enterprise Development Limited**	PRC	RMB792,000,000	–	100	Property development
Guangzhou Zhongtianying Real Estate Development Limited**	PRC	US\$198,000,000	–	100	Property development
Guangzhou Tianjian Real Estate Development Limited ("Guangzhou Tianjian")**	PRC	RMB1,617,000,000	–	100	Property development
Guangzhou Fuxin Property Management Limited**	PRC	RMB7,000,000	–	100	Property management
Guangzhou Ningjun Property Management Limited**	PRC	RMB7,000,000	–	100	Property management
Guangzhou Junzhao Property Operation Limited**	PRC	RMB7,000,000	–	100	Property management
Chengdu Zhongtianying Real Estate Development Limited <sup>#</sup>	PRC	RMB550,000,000	–	100	Property development
Guangzhou Liangyu Investment Limited <sup>#</sup>	PRC	RMB30,000,000	–	100	Property development
Hainan New World Real Estate Property (HK) Limited**	PRC	HK\$772,000,000	–	100	Property development
Suzhou Hejing Real Estate Development Limited <sup>#</sup>	PRC	RMB1,290,000,000	–	100	Property development
Guangzhou Conghua Hejing Real Estate Development Limited**	PRC	US\$99,000,000	–	100	Property development
Beijing Hejing Real Estate Development Limited <sup>#</sup>	PRC	RMB70,000,000	–	100	Property development

## 1. Corporate and Group Information *(continued)*

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Chengdu Zhaojing Real Estate Development Limited**	PRC	HK\$767,000,000	–	100	Property development
Kunshan Baicheng Real Estate Development Limited**	PRC	US\$29,900,000	–	100	Property development
Guangzhou Hejing Chuangzhan Hotel Limited#	PRC	RMB30,000,000	–	100	Hotel operation
Guangzhou Wanhui Real Estate Development Limited#	PRC	RMB330,000,000	–	100	Property development
Guangzhou Lihe Property Development Limited#	PRC	RMB640,000,000	–	100	Property development
Chengdu Kaiyu Real Estate Development Limited#	PRC	RMB100,000,000	–	100	Property development
Hainan Hejing Real Estate Development Limited#	PRC	RMB300,000,000	–	100	Property development
Shanghai Hejing Real Estate Development Limited#	PRC	RMB100,000,000	–	100	Property development
Shanghai Deyu Real Estate Development Limited (“Shanghai Deyu”)*	PRC	RMB100,000,000	–	100	Property development
Shanghai Jinyi Property Limited#	PRC	RMB30,000,000	–	100	Property development
Shanghai Hongyu Real Estate Development Limited#	PRC	RMB100,000,000	–	100	Property development
Beijing Hong'en Real Estate Development Limited Liability Company#	PRC	RMB100,000,000	–	100	Property development
Shanghai Zhaojing Real Estate Development Limited#	PRC	RMB100,000,000	–	100	Property development
Guangzhou Huijing Real Estate Development Limited**	PRC	US\$58,500,000	–	100	Property development
Guangzhou Chuangjing Real Estate Development Limited**	PRC	US\$15,120,000	–	100	Property development
Suzhou Junjing Real Estate Development Limited#	PRC	RMB185,000,000	–	100	Property development
Shanghai Langhe Real Estate Development Limited#	PRC	RMB887,000,000	–	100	Property development
Shanghai Jingdong Real Estate Development Limited#	PRC	RMB1,350,000,000	–	100	Property development
Guangzhou Hejing Fengjingyuan Hotel Limited#	PRC	RMB30,000,000	–	100	Hotel operation
Guangzhou Hejing Lingfengyuan Hotel Management Limited#	PRC	RMB30,000,000	–	100	Hotel operation

## 1. Corporate and Group Information *(continued)*

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Suzhou Shengjing Real Estate Development Limited <sup>#</sup>	PRC	RMB120,000,000	–	80	Property development
Suzhou Kaiwei Real Estate Development Limited <sup>#</sup>	PRC	RMB50,000,000	–	100	Property development
Guangzhou Weiyu Real Estate Development Limited <sup>#</sup>	PRC	RMB60,000,000	–	100	Property development
Suzhou Kaifu Real Estate Development Limited <sup>#</sup>	PRC	RMB170,000,000	–	100	Property development
Guangzhou Hongda Property Limited <sup>#</sup>	PRC	RMB1,300,000,000	–	100	Property development
Beijing Fuyu Real Estate Development Limited <sup>#</sup>	PRC	RMB20,000,000	–	100	Property development
Hangzhou Zhaojing Real Estate Development Limited <sup>#</sup>	PRC	RMB120,000,000	–	100	Property development
Beijing Hongtai Real Estate Development Limited <sup>#</sup>	PRC	RMB100,000,000	–	100	Property development
Beijing Hengcheng Real Estate Development Limited <sup>#</sup>	PRC	RMB100,000,000	–	100	Property development
Hangzhou Hejing Real Estate Development Limited <sup>#</sup>	PRC	RMB120,000,000	–	100	Property development
Hangzhou Hongjun Real Estate Development Limited <sup>#</sup>	PRC	RMB120,000,000	–	100	Property development
Sichuan Longyuan Property Limited <sup>#</sup>	PRC	RMB325,016,300	–	55	Property development
Hangzhou Tianjing Real Estate Development Limited <sup>#</sup>	PRC	RMB160,000,000	–	100	Property development
Suzhou Yujing Real Estate Development Limited ("Suzhou Yujing") <sup>#</sup>	PRC	RMB100,000,000	–	100	Property development
Hefei Rongze Real Estate Development Limited <sup>#</sup>	PRC	RMB50,000,000	–	100	Property development
Linhai Jinxuan Real Estate Development Limited <sup>#</sup>	PRC	RMB50,000,000	–	100	Property development
Suzhou Kaijun Real Estate Development Limited <sup>#</sup>	PRC	RMB430,000,000	–	100	Property development
Hubei Jinkaida Property Limited ("Hubei Jinkaida") <sup>#</sup>	PRC	RMB50,000,000	–	60	Property development
Suzhou Dongshanshu Real Estate Development Limited <sup>**</sup>	PRC	US\$12,000,000	–	100	Property development



## 1. Corporate and Group Information *(continued)*

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Taicang Hongtao Real Estate Development Limited <sup>#</sup>	PRC	RMB500,000,000	–	100	Property development
Nantong Nanjing Real Estate Development Limited <sup>#</sup>	PRC	US\$166,670,000	–	51	Property development
Guangxi Kairui Property Limited <sup>#</sup>	PRC	RMB350,000,000	–	100	Property development
Hangzhou Hongsheng Real Estate Development Limited <sup>#</sup>	PRC	RMB760,000,000	–	100	Property development

\* These entities are registered as wholly-foreign-owned enterprises under PRC law.

<sup>#</sup> The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of those companies, as no English names have been registered.

The statutory financial statements of these subsidiaries are not audited by Ernst & Young, Hong Kong or any other member firm of the Ernst & Young global network.

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

## 2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

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

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 the subsidiaries are consolidated from the dates on which the Group obtains control, and continue to be consolidated until the dates that such control ceases.

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

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

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in OCI 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.

## 2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

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

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 35(b) to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The nature and the impact of the amendments are described below:

- (a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 35(b) to the financial statements.
- (b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.
- (c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as the Group do not have subsidiaries classified as a disposal group held for sale as at 31 December 2017.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>4</sup> No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below. Of these standards, HKFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and is expected to have a significant impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of the standard, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.



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

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

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

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

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

The Group's principal activities consist of property development, property investment, hotel operation and property management. The expected impacts arising from the adoption of HKFRS 15 on the Group are summarised as follows:

### (a) Sale of completed properties

During the year and in prior years, the Group accounted for sales of completed properties when the significant risks and rewards of ownership of the properties were transferred to the purchasers, which is when the construction of the relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement, and the collectability of related receivables is reasonably assured. Under HKFRS 15, for the sale of completed properties, the control of the property is transferred at a point in time, and revenue is recognised when the customer obtains the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable. The Group has determined that when HKFRS 15 is adopted, there would be no impact on the revenue recognition from the sale of completed properties based on the current contracts terms.

For contract where the period between the payment by the customer and the transfer of the promised property or service exceeds one year, the transaction price is adjusted for the effects of a significant financing component. The transaction price is determined by discounting the amount of promised consideration. The Group uses the same discount rate that it would use if it were to enter into a separate financing transaction with the customer. The discount rate reflects the credit characteristics of the borrower in the arrangement. The Group has determined that when HKFRS 15 is adopted, there would be no significant impact on the amount of revenue from sale of completed properties.

Under HKFRS 15, incremental costs of obtaining a contracts (i.e., costs that would not have been incurred if the contract had not been obtained) are recognised as an contract assets if they are recoverable and subsequently amortised on a systematic basis consistent with the pattern of transfer of the services to which the asset is related when the related revenue is recognised. Recovery can be direct (i.e., through reimbursement under the contract) or indirect (i.e., through the margin inherent in the contract). Upon the adoption of HKFRS 15, sale commissions that are directly related to sales achieved during a time period would represent incremental costs that would require capitalisation and amortised in one year or less when the related revenue is recognised. The Group has determined that when HKFRS 15 is adopted, there would be no significant impact on the profit or loss of the Group.

### (b) Presentation and disclosure

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements and changes in judgements that affect the determination of the amount and timing of revenue from contracts with customers. The Group also need to make disclosure of the closing balances of capitalised costs to obtain and fulfil a contract and the amount of amortisation in the period.

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

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 38(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB49,596,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Amendments to HKAS 28 issued in January 2018 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments from 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

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

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

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

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



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

*Annual Improvements to HKFRSs 2015–2017 Cycle*, issued in February 2018, sets out amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23. The Group expects to adopt the amendments from 1 January 2019. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendments are as follows:

- *HKFRS 3 Business Combinations*: Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value.
- *HKFRS 11 Joint Arrangements*: Clarifies that when an entity that participates in (but does not have joint control of) a joint operation, obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation.
- *HKAS 12 Income Taxes*: Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, OCI or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend.
- *HKAS 23 Borrowing Costs*: Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sales are complete.

## 2.4 Summary of Significant Accounting Policies

### Investments in associates and joint ventures

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

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

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Investments in associates and joint ventures *(continued)*

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

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

The Group's share of the post-acquisition results and OCI of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated OCI, 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 asset 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.

### Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. 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 recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The assets, liabilities, revenues and expenses relating to the Group's interest in a joint operation are accounted for in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### **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 fair value. Acquisition-related costs are expensed as incurred.

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

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

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.

### **Fair value measurement**

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

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

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.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Fair value measurement *(continued)*

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

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

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

### Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Related parties

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

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

### Property, plant and equipment and depreciation

Property, plant and equipment, other than assets under construction, are stated at cost less accumulated depreciation and any impairment losses. 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 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.



## 2.4 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 principal annual rates used for this purpose are as follows:

Buildings	3% to 5%
Leasehold improvements	Over the shorter of the lease term and 20%
Plant and machinery	10% to 20%
Furniture, fixtures and office equipment	10% to 20%
Vehicles	10% to 20%

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

Assets under construction represent properties under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction, amortised land use rights and capitalised borrowing costs on related borrowed funds during the period of construction. Assets under construction are reclassified to 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. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of each reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss 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 in the year of the retirement or disposal.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### **Investment properties** *(continued)*

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 an asset revaluation reserve. For a transfer from properties under development or completed properties held for sale 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.

### **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 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 on the straight-line basis over the lease terms.

Land use rights 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.

### **Properties under development**

Properties under development are intended to be held for sale after completion.

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

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

### **Completed properties held for sale**

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and buildings costs attributable to unsold properties. Net realisable value is estimated by the directors based on the prevailing market prices, on an individual property basis.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Investments and other financial assets

#### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, 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 loans and receivables is as follows:

#### *Loans and receivables*

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

#### **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.

## 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 has occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortised cost*

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

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

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the loss is recognised in the statement of profit or loss. 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 the statement of profit or loss.

### **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 bills payables, financial liabilities included in other payables and accruals, amounts due to joint ventures and interest-bearing bank and other borrowings.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Financial liabilities *(continued)*

#### **Subsequent measurement**

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

#### *Loans and borrowings*

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

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

#### *Financial guarantee contracts*

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

#### **Derecognition of financial liabilities**

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

#### **Offsetting of financial instruments**

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

#### **Derivative financial instruments and hedge accounting**

##### *Initial recognition and subsequent measurement*

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. Such 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.



## 2.4 Summary of Significant Accounting Policies *(continued)*

### **Derivative financial instruments and hedge accounting** *(continued)*

#### *Initial recognition and subsequent measurement (continued)*

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, 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.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

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

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

#### *Hedges of a net investment*

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

#### *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).

- 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.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Derivative financial instruments and hedge accounting *(continued)*

#### *Current versus non-current classification (continued)*

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

### Cash and cash equivalents

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

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

### 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.

### 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 OCI 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 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 interests in subsidiaries, joint ventures 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.

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

### **Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant 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 credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset or over the benefits received by the Group related to such assets.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Revenue recognition

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

- (a) from the sale of properties, when the significant risks and rewards of ownership have been transferred to the buyer, which is when the construction work has been completed and the properties have been delivered to the buyer. Deposits and instalments received in respect of properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under current liabilities;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) hotel revenue from room rentals, food and beverage sales and other ancillary services, when the services are rendered;
- (d) property management fee income, when the related management services have been provided;
- (e) management fee income, when the related management services have been provided; and
- (f) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

### Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value was determined by an external valuer using the Black-Scholes model and binomial model (the "Models"), further details of which are given in note 30 to the financial statements.

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

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

## 2.4 Summary of Significant Accounting Policies *(continued)*

### **Share-based payments** *(continued)*

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

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

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

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

### **Other employee benefits**

#### *Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

### **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 consists of interest and other costs that an entity incurs in connection with the borrowing of funds.



## 2.4 Summary of Significant Accounting Policies *(continued)*

### **Borrowing costs** *(continued)*

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

### **Dividends**

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

### **Foreign currencies**

The Company's functional currency is the Hong Kong dollar while the presentation currency of these financial statements is RMB. In the opinion of the directors, as the Group's operations are mainly in the PRC, the use of RMB as the presentation currency is more appropriate for the presentation of the Group's results and financial position. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using the functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated 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 the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

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

The functional currencies of certain overseas subsidiaries and joint ventures not operating in Mainland China are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities and the Company are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in OCI and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and its overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and its overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

### 3. Significant Accounting Judgements and Estimates

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

#### 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 between investment properties and owner-occupied properties*

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

##### *Transfer from properties under development and completed properties held for sale to investment properties*

Properties under development and completed properties held for sale are transferred to investment properties when there is a change in use with sufficient evidence. The Group determines whether a change in use has occurred based on assessment of all relevant facts and circumstances, which include but are not limited to: (a) a business plan that reflects the future rental income generated by the property; (b) the resources to hold and manage an investment property; (c) legal permissibility for the change in use; and (d) the commencement of development if the property requires further development for the change in use. Any excess of fair value over the original carrying amount of such properties at the date of transfer was recognised immediately in the consolidated statement of profit or loss. During the year ended 31 December 2017, properties under development and completed properties held for sale with total carrying amounts of approximately RMB912,164,000 (2016: approximately RMB131,690,000) and nil (2016: approximately RMB90,172,000), respectively, were transferred to investment properties due to a change in use, giving rise to a net fair value gain of approximately RMB582,835,000 (2016: loss of approximately RMB504,000) and nil (2016: a net fair value gain of approximately RMB38,586,000), respectively, in the consolidated statement of profit or loss.

##### *Deferred taxation on investment properties*

For the purposes of measuring deferred tax liabilities arising from investment properties that are measured using the fair value model, management of the Group has reviewed the Group's investment properties and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred taxation on investment properties, the directors have determined that the presumption that investment properties measured using the fair value model are recovered through sale is rebutted.

### 3. Significant Accounting Judgements and Estimates *(continued)*

#### Judgements *(continued)*

##### *Deferred taxation on investment properties (continued)*

Accordingly, the Group recognises deferred tax in respect of the changes in fair value of the investment properties based on management's best estimate assuming future tax consequences through usage of such properties for rental purpose, rather than through sale. The final tax outcome could be different from the deferred tax liabilities recognised in the consolidated financial statements should the investment properties be subsequently disposed of by the Group, rather than all of the economic benefits embodied in the investment properties are consumed substantially by leasing over time. In the event that the investment properties are disposed of, the Group may be liable to higher tax upon disposal considering the impact of corporate income tax ("CIT") and land appreciation tax ("LAT").

#### 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.

##### *Revaluation of investment properties*

Investment properties including completed investment properties and investment properties under construction are revalued at the end of each reporting period based on the market value provided by independent professionally qualified valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, information about market rent and capitalisation rates is considered and assumptions that are mainly based on market conditions existing at the end of each reporting period are used. The carrying amount of the Group's investment properties at 31 December 2017 was approximately RMB13,718,600,000 (31 December 2016: approximately RMB10,533,100,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

##### *Estimation of net realisable value of properties under development and completed properties held for sale*

Properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. The net realisable value is determined by the Group with reference to the prevailing market conditions and prices existing, on an individual property basis, at the end of each reporting period. As at 31 December 2017, the carrying amounts of properties under development and completed properties held for sale were approximately RMB30,908,445,000 (2016: approximately RMB38,503,341,000) and approximately RMB6,540,415,000 (2016: approximately RMB6,866,193,000), respectively.

##### *CIT*

The Group is subject to CIT in the PRC. As certain matters relating to the CIT have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision of CIT. Where the final tax outcomes of these matters are different from the amounts originally recorded, the differences will impact on the CIT and tax provision in the period in which the differences realise.

### 3. Significant Accounting Judgements and Estimates *(continued)*

#### Estimation uncertainty *(continued)*

##### *PRC LAT*

The Group is subject to LAT in the PRC. The provision of LAT is based on management's best estimates according to its understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT calculations and payments with the tax authorities for certain property development projects. The final outcome could be different from the amounts that were initially recorded, and any differences will impact the LAT expenses and the related provision in the period in which the differences realise.

##### *Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the 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 level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2017 was approximately RMB245,265,000 (2016: approximately RMB244,435,000). The amount of unrecognised tax losses at 31 December 2017 was approximately RMB1,204,321,000 (31 December 2016: approximately RMB1,174,217,000). Further details are contained in note 27 to the financial statements.

##### *Impairment of non-financial assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of the reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment 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.

##### *Recognition and allocation of construction cost on properties under development*

Development costs of properties are recorded as properties under development during the construction stage and will be transferred to completed properties held for sale upon completion. Apportionment of these costs will be recognised in the statement of profit or loss upon the recognition of the sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate.

When developing properties, the Group may divide the development projects into phases. Specific costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to phases are allocated to individual phases based on the estimated saleable area of the entire project.

Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

#### 4. Operating Segment Information

For management purposes, the Group is organised into four reportable operating segments as follows:

- |                           |   |
|---------------------------|---|
| (a) Property development: | Sale of properties                        |
| (b) Property investment:  | Leasing of properties                     |
| (c) Hotel operation:      | Operation of hotels                       |
| (d) Property management:  | Provision of property management services |

The property development projects undertaken by the Group during the year are all located in Mainland China and Hong Kong.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, as well as head office and corporate income and expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverables, restricted cash, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities, tax payables and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted in accordance with the terms and conditions mutually agreed by the parties involved.

Other than the segment information disclosed below, the directors considered that other segment information is not reportable segment information used by the chief operating decision makers of the Group.

The Group's revenue from external customers is derived solely from its operations in Mainland China, and over 90% of the non-current assets of the Group are located in Mainland China, no further geographical information is provided.

During 2017, revenue of approximately RMB2,371,183,000 was derived from sales by the property development segment to a single external customer.

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



## 4. Operating Segment Information *(continued)*

*Year ended 31 December 2017*

	Property development RMB'000	Property investment RMB'000	Hotel operation RMB'000	Property management RMB'000	Total RMB'000
<b>Segment revenue:</b>					
Sales to external customers	10,432,094	231,166	424,479	455,333	11,543,072
<b>Segment results</b>	4,922,417	1,418,006	147,493	99,223	6,587,139
<i>Reconciliation:</i>					
Interest income and unallocated income					632,914
Unallocated expenses					(1,335,520)
Finance costs					(329,505)
Profit before tax					5,555,028
Income tax expenses					(1,950,015)
Profit for the year					3,605,013
<b>Assets and liabilities:</b>					
Segment assets	72,651,360	13,771,800	5,048,755	103,208	91,575,123
Segment liabilities	74,405,756	37,974	43,433	9,127	74,496,290
<b>Other segment information:</b>					
Depreciation and amortisation	42,768	5,057	98,106	1,347	147,278
Fair value gains on investment properties, net	-	1,204,881	-	-	1,204,881
Share of profits and losses of:					
Associates	(2,514)	-	-	-	(2,514)
Joint ventures	1,900,410	-	-	-	1,900,410
Interests in associates	740,629	-	-	-	740,629
Interests in joint ventures	32,091,230	-	-	-	32,091,230

#### 4. Operating Segment Information *(continued)*

##### *Year ended 31 December 2016*

	Property development RMB'000	Property investment RMB'000	Hotel operation RMB'000	Property management RMB'000	Total RMB'000
<b>Segment revenue:</b>					
Sales to external customers	7,922,956	182,411	389,839	370,123	8,865,329
<b>Segment results</b>					
	4,193,984	344,732	127,174	96,190	4,762,080
<i>Reconciliation:</i>					
Interest income and unallocated income					731,732
Unallocated expenses					(806,438)
Finance costs					(159,875)
Profit before tax					4,527,499
Income tax expenses					(1,065,893)
Profit for the year					3,461,606
<b>Assets and liabilities:</b>					
Segment assets	65,930,865	10,596,369	4,759,311	98,154	81,384,699
Segment liabilities	76,155,631	43,734	39,067	5,244	76,243,676
<b>Other segment information:</b>					
Depreciation and amortisation	42,593	2,337	103,825	1,137	149,892
Fair value gains on investment properties, net	–	165,900	–	–	165,900
Share of profits and losses of:					
Joint ventures	2,129,540	–	–	–	2,129,540
Interests in joint ventures	18,998,141	–	–	–	18,998,141

## 5. Revenue, Other Income and Gains, Net

Revenue represents the gross proceeds from the sale of properties; gross rental income received and receivable from investment properties; gross revenue from hotel operation and property management fee income during the year.

An analysis of revenue, other income and gains, net is as follows:

	Notes	2017 RMB'000	2016 RMB'000
<b>Revenue:</b>			
Sale of properties		<b>10,432,094</b>	7,922,956
Gross rental income		<b>231,166</b>	182,411
Hotel operation income		<b>424,479</b>	389,839
Property management fee income		<b>455,333</b>	370,123
		<b>11,543,072</b>	8,865,329
<b>Other income and gains, net:</b>			
Interest income		<b>323,340</b>	169,677
Foreign exchange differences, net		–	304,550
Management fee income		<b>196,402</b>	72,377
Gain on disposal of a subsidiary	34	–	44,708
Gain on acquisition of a subsidiary	33	–	57,198
Others		<b>113,172</b>	83,222
		<b>632,914</b>	731,732

## 6. Profit Before Tax

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

	Notes	2017 RMB'000	2016 RMB'000
Cost of properties sold		<b>7,040,436</b>	5,570,990
Less: Government grant released*	25(a)	<b>(48)</b>	(171)
		<b>7,040,388</b>	5,570,819
Cost of services provided		<b>482,752</b>	224,161
Depreciation	13	<b>141,814</b>	144,414
Amortisation of land use rights	15	<b>25,864</b>	26,933
Less: Amount capitalised in assets under construction		<b>(20,400)</b>	(21,455)
		<b>5,464</b>	5,478
Premium paid on early redemption of senior notes***		<b>174,540</b>	117,667
Minimum lease payments under operating leases of land and buildings		<b>48,949</b>	37,467
Auditor's remuneration		<b>4,450</b>	4,350
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		<b>634,317</b>	546,890
Pension scheme contributions (defined contribution scheme)**		<b>69,129</b>	57,124
		<b>703,446</b>	604,014
Less: Amounts capitalised in assets under construction, properties under development and investment properties under development		<b>(121,520)</b>	(106,844)
		<b>581,926</b>	497,170
Foreign exchange differences, net***		<b>321,777</b>	(304,550)
Loss/(gain) on disposal of investment properties, net		<b>2,981</b>	(5)
(Gain)/loss on disposal of items of property, plant and equipment***		<b>(879)</b>	19
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		<b>22,538</b>	30,320

\* There are no unfulfilled conditions or contingencies relating to this government grant.

\*\* At 31 December 2017, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2016: Nil).

\*\*\* Premium paid on early redemption of senior notes, net foreign exchange losses and loss on disposal of items of property, plant and equipment are included in "Other operating expenses, net" in the consolidated statement of profit or loss.

## 7. Finance Costs

An analysis of the Group's finance costs is as follows:

	2017 RMB'000	2016 RMB'000
Interest on bank and other borrowings	<b>3,098,567</b>	2,713,385
Less: Interest capitalised	<b>(2,769,062)</b>	(2,553,510)
	<b>329,505</b>	159,875

## 8. Directors' and Chief Executive's Remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017 RMB'000	2016 RMB'000
Fees	<b>5,733</b>	6,486
Other emoluments:		
Salaries, allowances and benefits in kind	<b>15,383</b>	18,760
Pension scheme contributions	<b>236</b>	273
	<b>15,619</b>	19,033
	<b>21,352</b>	25,519

There were no directors and chief executive being granted share options during the year (2016: Nil).



**8. Directors' and Chief Executive's Remuneration** *(continued)***(a) Independent non-executive directors**

	Fees RMB'000
<b>2017</b>	
Independent non-executive directors:	
Mr. Lee Ka Sze, Carmelo	435
Mr. Tam Chun Fai	435
Mr. Li Bin Hai	435
	<b>1,305</b>
<b>2016</b>	
Independent non-executive directors:	
Mr. Lee Ka Sze, Carmelo	462
Mr. Tam Chun Fai	462
Mr. Li Bin Hai	462
	<b>1,386</b>

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

## 8. Directors' and Chief Executive's Remuneration *(continued)*

### (b) Executive directors and chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
<b>2017</b>				
Executive directors:				
Mr. Kong Jian Min	1,254	3,500	52	4,806
Mr. Kong Jian Tao (note (i))	1,254	3,500	52	4,806
Mr. Kong Jian Nan	1,254	3,500	52	4,806
Mr. Li Jian Ming	334	1,040	52	1,426
Mr. Tsui Kam Tim	332	3,843	28	4,203
	<b>4,428</b>	<b>15,383</b>	<b>236</b>	<b>20,047</b>
<b>2016</b>				
Executive directors:				
Mr. Kong Jian Min	1,342	3,500	49	4,891
Mr. Kong Jian Tao (note (i))	1,342	3,500	49	4,891
Mr. Kong Jian Nan	1,342	3,500	49	4,891
Mr. Li Jian Ming	358	1,244	49	1,651
Mr. Tsui Kam Tim	358	3,597	32	3,987
Mr. He Wei Zhi (note (ii))	358	3,419	45	3,822
	<b>5,100</b>	<b>18,760</b>	<b>273</b>	<b>24,133</b>

Notes:

(i) Mr. Kong Jian Tao is also the chief executive officer of the Company.

(ii) Resigned on 2 December 2016.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

## 9. Five Highest Paid Employees

The five highest paid employees for the year ended 31 December 2017 included four directors and the chief executive (2016: five), details of whose remuneration are set out in note 8 above.

Details of the remuneration for the year ended 31 December 2017 of the remaining one highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	2,638	–
Pension scheme contributions	82	–
	<b>2,720</b>	–

The number of non-director and non-chief executive highest paid employees whose emoluments fell within the following band is as follows:

	Number of employees	
	2017	2016
RMB2,500,001 to RMB3,000,000	1	–

There were no non-director and non-chief executive highest paid employees being granted share options during the year (2016: Nil).

## 10. Income Tax Expenses

	2017 RMB'000	2016 RMB'000
Current – PRC		
CIT	1,061,634	618,307
LAT	843,254	547,602
	<b>1,904,888</b>	1,165,909
Deferred (note 27)	45,127	(100,016)
	<b>1,950,015</b>	1,065,893

## 10. Income Tax Expenses *(continued)*

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

	2017 RMB'000	2016 RMB'000
Profit before tax	<b>5,555,028</b>	4,527,499
Tax at the statutory tax rate of 25.0% (2016: 25.0%)	<b>1,388,757</b>	1,131,875
Income not subject to tax	<b>(77,213)</b>	(96,457)
Expenses not deductible for tax	<b>243,910</b>	107,043
Tax losses not recognised	<b>138,834</b>	50,470
Profits and losses attributable to associates	<b>629</b>	–
Profits and losses attributable to joint ventures	<b>(475,103)</b>	(532,385)
LAT	<b>843,254</b>	547,602
Effect of LAT	<b>(210,814)</b>	(136,901)
Tax effect of verification collection	<b>21,575</b>	10,997
Others	<b>76,186</b>	(16,351)
Tax charge at the Group's effective rate of 35.1% (2016: 23.5%)	<b>1,950,015</b>	1,065,893

For the year ended 31 December 2017, the share of CIT expenses and LAT expenses attributable to the joint ventures amounting to approximately RMB641,207,000 (2016: approximately RMB710,053,000) and approximately RMB666,572,000 (2016: approximately RMB554,121,000), respectively, is included in "Share of profits and losses of joint ventures" in the consolidated statement of profit or loss.

For the year ended 31 December 2017, the share of CIT credit attributable to the associates amounting to approximately RMB838,000 (2016: Nil) is included in "Share of profits and losses of associates" in the consolidated statement of profit or loss.

### Hong Kong profits tax

No Hong Kong profits tax has been provided because the Group did not generate any assessable profits arising in Hong Kong during the years ended 31 December 2017 and 2016.

### PRC CIT

PRC CIT in respect of operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the years ended 31 December 2017 and 2016, based on existing legislation, interpretations and practices in respect thereof.

### PRC LAT

PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of the land value, being the proceeds of sale of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

## 11. Dividends

	2017 RMB'000	2016 RMB'000
Interim dividend declared – RMB10 cents (2016: Nil) per ordinary share	<b>305,380</b>	–
Proposed final dividend (with scrip option) – RMB31 cents (2016: final dividend (with scrip option) of RMB40 cents) per ordinary share	<b>978,098</b>	1,221,521
Proposed special dividend – Nil (2016: special dividend (with scrip option) of RMB11 cents) per ordinary share	–	335,918
	<b>1,283,478</b>	1,557,439

On 28 August 2017, the Board declared the payment of a 2017 interim dividend of RMB305,380,000 representing RMB10 cents per share, based on the number of shares in issue as at 30 June 2017 (2016: Nil). The interim dividend for the year was made out of the retained profit of the Company.

The proposed final dividend for the year, to be made out of the share premium account of the Company, is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.



## 12. Earnings Per Share Attributable to Owners of the Company

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares of 3,097,952,915 (2016: 3,021,295,752) in issue during the year.

For the year ended 31 December 2016, the calculation of the diluted earnings per share amount was based on the profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares used in the calculation was the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation of 3,021,295,752 plus the weighted average number of ordinary shares of 244,437 assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

Diluted earnings per share amount for the year ended 31 December 2017 was the same as the basic earnings per share as the Group had no potential diluted ordinary shares in issue during the year.

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

	2017 RMB'000	2016 RMB'000
<b>Earnings</b>		
Profit attributable to owners of the Company	<b>3,620,071</b>	3,464,714
	Number of shares	
	2017	2016
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	<b>3,097,952,915</b>	3,021,295,752
Effect of dilution – share options	–	244,437
Weighted average number of ordinary shares during the year used in diluted earnings per share calculation	<b>3,097,952,915</b>	3,021,540,189

### 13. Property, Plant and Equipment

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Vehicles RMB'000	Assets under construction RMB'000	Total RMB'000
<b>31 December 2017</b>							
At 31 December 2016 and 1 January 2017:							
Cost	2,749,751	39,715	3,188	321,581	114,549	1,340,535	4,569,319
Accumulated depreciation	(345,501)	(21,206)	(3,173)	(235,262)	(73,556)	-	(678,698)
Net carrying amount	2,404,250	18,509	15	86,319	40,993	1,340,535	3,890,621
At 1 January 2017, net of accumulated depreciation	2,404,250	18,509	15	86,319	40,993	1,340,535	3,890,621
Additions	124,657	6,385	-	23,971	5,565	270,353	430,931
Disposals	-	-	-	(151)	(822)	-	(973)
Derecognition of subsidiaries (note 35)	-	(187)	-	(163)	(197)	-	(547)
Surplus on revaluation upon the transfer to investment properties	35,572	-	-	-	-	-	35,572
Transfers (note 14)	(39,917)	-	-	-	-	-	(39,917)
Depreciation provided during the year	(84,703)	(6,202)	-	(39,811)	(11,098)	-	(141,814)
At 31 December 2017, net of accumulated depreciation	2,439,859	18,505	15	70,165	34,441	1,610,888	4,173,873
At 31 December 2017							
Cost	2,870,063	45,913	3,188	344,540	114,820	1,610,888	4,989,412
Accumulated depreciation	(430,204)	(27,408)	(3,173)	(274,375)	(80,379)	-	(815,539)
Net carrying amount	2,439,859	18,505	15	70,165	34,441	1,610,888	4,173,873

### 13. Property, Plant and Equipment *(continued)*

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Vehicles RMB'000	Assets under construction RMB'000	Total RMB'000
<b>31 December 2016</b>							
At 1 January 2016:							
Cost	2,749,751	37,296	3,188	307,423	112,211	1,024,619	4,234,488
Accumulated depreciation	(263,043)	(16,651)	(3,173)	(195,461)	(62,333)	–	(540,661)
Net carrying amount	2,486,708	20,645	15	111,962	49,878	1,024,619	3,693,827
At 1 January 2016, net of accumulated depreciation	2,486,708	20,645	15	111,962	49,878	1,024,619	3,693,827
Additions	–	2,514	–	15,591	8,734	315,916	342,755
Disposals	–	–	–	(162)	(828)	–	(990)
Depreciation provided during the year	(82,458)	(4,556)	–	(40,891)	(16,509)	–	(144,414)
Acquisition of a subsidiary (note 33)	–	–	–	1	–	–	1
Disposal of a subsidiary (note 34)	–	(94)	–	(182)	(282)	–	(558)
At 31 December 2016, net of accumulated depreciation	2,404,250	18,509	15	86,319	40,993	1,340,535	3,890,621
At 31 December 2016:							
Cost	2,749,751	39,715	3,188	321,581	114,549	1,340,535	4,569,319
Accumulated depreciation	(345,501)	(21,206)	(3,173)	(235,262)	(73,556)	–	(678,698)
Net carrying amount	2,404,250	18,509	15	86,319	40,993	1,340,535	3,890,621

At 31 December 2017, certain items of the Group's property, plant and equipment with an aggregate net carrying amount of approximately RMB2,314,124,000 (2016: approximately RM2,255,233,000) were pledged to secure general banking facilities granted to the Group (note 37(a)).

## 14. Investment Properties

	2017			2016		
	Completed investment properties RMB'000	Investment properties under construction RMB'000	Total RMB'000	Completed investment properties RMB'000	Investment properties under construction RMB'000	Total RMB'000
Carrying amount at 1 January	6,482,100	4,051,000	10,533,100	6,080,100	3,469,493	9,549,593
Transfers from properties under development (note 18)	-	912,164	912,164	-	131,690	131,690
Transfer from completed properties held for sale (note 19)	-	-	-	90,172	-	90,172
Transfer from property, plant and equipment (note 13)	39,917	-	39,917	-	-	-
Transfer from land use rights (note 15)	3,735	-	3,735	-	-	-
Additions	-	1,027,784	1,027,784	83,346	513,081	596,427
Transfers	3,559,375	(3,559,375)	-	123,000	(123,000)	-
Disposals	(2,981)	-	(2,981)	(682)	-	(682)
Net gain from a fair value adjustment	611,454	593,427	1,204,881	106,164	59,736	165,900
Carrying amount at 31 December	10,693,600	3,025,000	13,718,600	6,482,100	4,051,000	10,533,100

The Group's investment properties consist of commercial properties in the PRC. The directors of the Company have determined that the investment properties consist of one class of asset, commercial properties, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2017 based on valuations performed by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, at approximately RMB13,718,600,000 (2016: approximately RMB10,533,100,000). Each year, the Group's property manager and the chief financial officer decide, after approval from the audit committee, to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

Certain of the Group's investment properties are leased to third parties under operating leases, further summary details of which are included in note 38(a) to the financial statements.

At 31 December 2017, certain items of the Group's investment properties with an aggregate carrying amount of approximately RMB6,730,515,000 (2016: approximately RMB6,108,762,000) were pledged to secure general banking facilities granted to the Group (note 37(a)).

At 31 December 2017, the Group had not yet obtained the real estate ownership certificates of the Group's investment properties with a net carrying amount of approximately RMB7,271,000,000 (2016: approximately RMB6,336,000,000) from the relevant government authorities.

Further particulars of the Group's major investment properties are included on page 171 of the annual report.

## 14. 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) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for: Commercial properties	-	-	13,718,600	13,718,600

	Fair value measurement as at 31 December 2016 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for: Commercial properties	-	-	10,533,100	10,533,100

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 (2016: Nil).

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

	Valuation techniques	Significant unobservable inputs	Range or weighted average	
			2017	2016
Commercial properties	Investment approach and direct comparison approach	Market rent (per sq.m. and per month)	40 to 1,040	40 to 1,061
		Capitalisation rates	3.25% to 6.25%	4.0% to 6.5%

The Group has determined that the highest and best use of the commercial properties at the measurement date would be to convert the properties for residential purposes. For strategic reasons, the properties are not being used in this manner.



## 14. Investment Properties *(continued)*

### Fair value hierarchy *(continued)*

All the properties are valued by the investment approach taking into account the rental income derived from the existing tenancies with due allowance for the reversionary income potential of the tenancies, which are then capitalised into the value at appropriate rates.

The properties are also valued by the direct comparison approach on the assumption that each property can be sold in their existing state subject to existing tenancies or otherwise by referring to comparable sales transactions as available in the relevant markets. Comparison is based on prices realised on actual transactions or asking prices of comparable properties. Comparable properties with similar sizes, characters and locations are analysed, and carefully weighed against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value. The two approaches are reconciled, if applicable.

A significant increase (decrease) in the capitalisation rates in isolation would result in a significant decrease (increase) in the fair value of the investment properties. A significant increase (decrease) in the market rent in isolation would result in a significant increase (decrease) in the fair value of the investment properties.

## 15. Land Use Rights

	Notes	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January		<b>1,067,661</b>	945,781
Surplus on revaluation upon the transfer to investment properties		<b>3,328</b>	–
Transfer to investment properties	14	<b>(3,735)</b>	–
Additions		<b>56,163</b>	148,813
Amortisation recognised during the year		<b>(25,864)</b>	(26,933)
Carrying amount at 31 December		<b>1,097,553</b>	1,067,661
Current portion included in prepayments, deposits and other receivables	21	<b>(25,865)</b>	(26,933)
Non-current portion		<b>1,071,688</b>	1,040,728

At 31 December 2017, certain items of the Group's land use rights with an aggregate net carrying amount of approximately RMB145,530,000 (2016: approximately RMB131,054,000) were pledged to banks to secure general banking facilities granted to the Group (note 37(a)).

At 31 December 2017, the Group has not yet obtained the land use right certificates of certain lands with an aggregate net carrying amount of approximately RMB27,450,000 (2016: approximately RMB27,450,000) from the relevant government authorities.

## 16. Interests in Associates

	2017 RMB'000	2016 RMB'000
Share of net assets	23,211	–
Advances to associates	717,418	–
	<b>740,629</b>	–

As at 31 December 2017, the advances to associates as shown above are unsecured, interest-free and not repayment within 12 months. In the opinion of the directors, these advances are considered as part of the Group's net investments in the associates.

The Group's shareholdings in the associates all comprise equity shares held by the wholly-owned subsidiaries of the Company.

The associates of the Group are all not individually material.

The statutory financial statements of the associates are not audited by Ernst & Young, Hong Kong or any other member firm of the Ernst & Young global network.

## 17. Interests in Joint Ventures/Balances with Joint Ventures

	2017 RMB'000	2016 RMB'000
Share of net assets	19,177,226	15,883,485
Advances to joint ventures	12,914,004	3,114,656
	<b>32,091,230</b>	18,998,141

As at 31 December 2017, except for an aggregate amounts of approximately RMB6,585,224,000 (2016: RMB1,020,720,000), which are interest-bearing at 2.5 to 10% (2016: 10%) per annum, the advances to joint ventures as shown above are unsecured, interest-free and not repayable within 12 months. In the opinion of the directors, these advances were considered as part of the Group's net investments in the joint ventures.

As at 31 December 2017, an amount due from a joint venture included in the Group's current assets of approximately RMB30,065,000 (2016: approximately RMB30,059,000) was unsecured, interest-free and had no fixed term of repayment.

As at 31 December 2017, the amount due to joint ventures included in the Group's current liabilities of approximately RMB27,929,009,000 (2016: RMB21,530,757,000) was unsecured, interest-free and had no fixed terms of repayment.

## 17. Interests in Joint Ventures/Balances with Joint Ventures *(continued)*

Particulars of the Group's material joint ventures as at the end of the reporting period are as follows:

Name	Particular of registered capital	Place of registration and business	2017			Principal activities
			Ownership interest	Voting power	Profit sharing	
Chengdu Hongyu Real Estate Development Limited ("Chengdu Hongyu") <sup>#</sup>	US\$699,980,000	PRC/ Mainland China	50	50	50	Property development
Hangzhou Jun'an Real Estate Development Limited ("Hangzhou Jun'an") <sup>#</sup>	RMB50,000,000	PRC/ Mainland China	51	51	51	Property development

Name	Particular of registered capital	Place of registration and business	2016			Principal activities
			Ownership interest	Voting power	Profit sharing	
Guangzhou Fujing Real Estate Development Limited ("Guangzhou Fujing") <sup>#</sup>	HK\$1,993,000,000	PRC/ Mainland China	33.33	33.33	33.33	Property development

<sup>#</sup> The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of those entity, as no English names have been registered.

The above investments are indirectly held through wholly-owned subsidiaries of the Company.

The statutory financial statement of the joint venture is not audited by Ernst & Young, Hong Kong or any other member firm of the Ernst & Young global network.

As at 31 December 2017, Chengdu Hongyu and Hangzhou Jun'an, which are considered the material joint ventures of the Group, engage in property development business in Mainland China and are accounted for using the equity method.

As at 31 December 2016, Guangzhou Fujing, which is considered a material joint venture of the Group, engages in property development business in Mainland China and is accounted for using the equity method.

## 17. Interests in Joint Ventures/Balances with Joint Ventures *(continued)*

The following table illustrates the summarised financial information in respect of Chengdu Hongyu and Hangzhou Jun'an adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2017 RMB'000
Total assets	<b>15,792,115</b>
Total liabilities	<b>(9,120,293)</b>
Profit and total comprehensive income for the year	<b>1,303,421</b>

The following table illustrates the summarised financial information in respect of Guangzhou Fujing adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2016 RMB'000
Total assets	14,642,350
Total liabilities	(5,909,127)
Profit and total comprehensive income for the year	1,061,206

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

	2017 RMB'000	2016 RMB'000
Share of the joint ventures' profit for the year	<b>1,242,689</b>	1,775,840
Share of the joint ventures' other comprehensive loss	<b>254,141</b>	(238,896)
Share of the joint ventures' total comprehensive income	<b>1,496,830</b>	1,536,944
Aggregate carrying amount of the Group's investments in the joint ventures	<b>28,748,899</b>	16,087,358

Fair value gains in respect of properties owned by the Group's joint ventures are included in "Share of profits and losses of joint ventures" in the consolidated statement of profit or loss.

## 18. Properties Under Development

	2017 RMB'000	2016 RMB'000
Properties under development expected to be recovered:		
Within one year	<b>12,966,536</b>	13,630,499
After more than one year	<b>17,941,909</b>	24,872,842
	<b>30,908,445</b>	38,503,341

The Group's properties under development were located in Mainland China and are stated at cost.

During the year ended 31 December 2017, certain items of the Group's properties under development with an aggregate carrying value of approximately RMB912,164,000 (2016: approximately RMB131,690,000) (note 14) were transferred to investment properties.

As at 31 December 2017, certain items of the Group's properties under development with an aggregate carrying amount of approximately RMB9,563,836,000 (2016: approximately RMB5,612,689,000) were pledged to secure general banking facilities granted to the Group (note 37(a)).

Included in the Group's properties under development as at 31 December 2017 were land costs with an aggregate net carrying amount of approximately RMB4,270,369,000 (2016: approximately RMB7,641,172,000) in which the Group has not yet obtained land use right certificates from the relevant government authorities. The Group has not fully settled the purchase consideration in accordance with the terms of certain relevant land use right grant contracts. The directors of the Company consider that the relevant land use right certificates will be obtained upon the full payment of the purchase consideration.

Further particulars of the Group's major properties under development are set out on page 171 of the annual report.

## 19. Completed Properties Held for Sale

The Group's completed properties held for sale are located in Mainland China. All completed properties held for sale are stated at the lower of cost and net realisable value.

During the year ended 31 December 2017, none of the Group's completed properties held for sale was transferred to investment properties (2016: approximately RMB90,172,000) (note 14).

As at 31 December 2017, certain items of the Group's completed properties held for sale with an aggregate carrying amount of approximately RMB388,488,000 (2016: 1,532,581,000) were pledged to secure general banking facilities granted to the Group (note 37(a)).

Further particulars of the Group's major completed properties held for sale are set out on page 171 of the annual report.



## 20. Trade Receivables

Trade receivables mainly consist of receivables from the sale of properties, rentals under operating leases and provision of property management services and hotel operation. The payment terms of the sale of properties are stipulated in the relevant sale and purchase agreements, whilst the Group's trading terms with its customers in relation to the provision of rental, property management and other services are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally within 12 months for major customers. In view of the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period is as follows:

	2017 RMB'000	2016 RMB'000
Within 3 months	<b>246,623</b>	108,714
4 to 6 months	<b>24,431</b>	14,634
7 to 12 months	<b>247,070</b>	16,293
Over 1 year	<b>17,541</b>	17,134
	<b>535,665</b>	156,775

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

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	<b>518,124</b>	123,348
1 to 6 months past due	<b>8,883</b>	16,293
Over 6 months past due	<b>8,658</b>	17,134
	<b>535,665</b>	156,775

The Group's trade receivables relate to a large number of diversified customers. 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 was no recent history of default and the balances are still considered fully recoverable.

## 21. Prepayments, Deposits and Other Receivables

	Note	2017 RMB'000	2016 RMB'000
Prepayments		717,985	560,857
Prepaid other taxes		52,510	122,219
Prepaid land lease payments	15	25,865	26,933
Deposits and other receivables		2,167,038	1,490,696
		<b>2,963,398</b>	2,200,705

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

## 22. Tax Recoverables/Tax Payables

### (a) Tax recoverables

	2017 RMB'000	2016 RMB'000
Prepaid CIT	80,084	57,773
Prepaid LAT	212,721	230,270
	<b>292,805</b>	288,043

### (b) Tax payables

	2017 RMB'000	2016 RMB'000
CIT payable	2,609,284	2,086,659
LAT payable	4,029,071	3,344,711
	<b>6,638,355</b>	5,431,370

## 23. Cash and Cash Equivalents and Restricted Cash

	Notes	2017 RMB'000	2016 RMB'000
Cash and bank balances		<b>15,757,103</b>	17,396,872
Time deposits		<b>24,710,218</b>	9,504,700
		<b>40,467,321</b>	26,901,572
Less: Restricted cash	(a)	<b>(1,268,364)</b>	(1,130,660)
Cash and cash equivalents		<b>39,198,957</b>	25,770,912
		<b>39,686,861</b>	26,424,925
Denominated in RMB	(b)	<b>39,686,861</b>	26,424,925
Denominated in other currencies		<b>780,460</b>	476,647
		<b>40,467,321</b>	26,901,572

### Notes:

- (a) Pursuant to relevant regulations in the PRC, certain property development companies of the Group are required to place a certain amount of pre-sale proceeds received at designated bank accounts as guarantee deposits for the construction of the relevant properties. As at 31 December 2017, such guarantee deposits amounted to approximately RMB1,268,364,000 (2016: approximately RMB1,130,660,000).
- (b) 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.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made at a maximum of three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and restricted cash are deposited with creditworthy banks with no recent history of default.

As at 31 December 2017, certain items of the Group's time deposits with an aggregate carrying amount of approximately RMB109,000,000 (2016: Nil) were pledged to secure general banking facilities granted to the Group (note 37(a)).

## 24. Trade and Bills Payables

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

	2017 RMB'000	2016 RMB'000
Within one year	<b>2,644,265</b>	5,753,979

The trade and bills payables are non-interest-bearing and are normally settled on demand.

## 25. Other Payables and Accruals

	Note	2017 RMB'000	2016 RMB'000
Deposits received and receipts in advance		<b>1,619,527</b>	4,185,791
Other payables and accruals		<b>6,493,778</b>	5,454,565
Other tax payables		<b>316,929</b>	174,888
Deferred income	(a)	<b>13,644</b>	13,692
Payroll payables		<b>11,258</b>	10,028
		<b>8,455,136</b>	9,838,964

Note:

- (a) The deferred income is related to a government grant of RMB203,700,000 received in 2009 for a project in an economic and technological development zone in Guangzhou, Guangdong Province, the PRC. During the year, approximately RMB48,000 (2016: approximately RMB171,000) has been credited to the cost of sales.

Other payables are non-interest-bearing and are normally settled on demand.

## 26. Interest-bearing Bank and Other Borrowings

	2017			2016		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>						
Bank loans						
– secured	4.75–5.23	2018	590,000	5.04–5.46	2017	2,297,364
– denominated in HK\$, secured	HIBOR+1.4	2018	83,591	HIBOR+4.29	2017	1,330,422
Current portion of long-term bank loans						
– secured	4.75–5.64	2018	341,898	4.90–5.64	2017	1,125,729
– denominated in HK\$, secured	HIBOR+3.51	2018	131,308	–	–	–
– denominated in US\$, secured	LIBOR+3.51	2018	110,903	–	–	–
Domestic corporate bonds – unsecured (b)	5.14	2018	2,482,851	–	–	–
			<u>3,740,551</u>			<u>4,753,515</u>
<b>Non-current</b>						
Bank loans						
– secured	4.75–7.15	2019–2032	12,964,538	4.90–5.64	2018–2031	6,437,070
– denominated in HK\$, secured	HIBOR+3.51	2019–2021	1,342,890	–	–	–
– denominated in US\$, secured	LIBOR+3.51	2019–2021	1,166,094	–	–	–
Senior notes						
– denominated in US\$, secured (a)	5.45–9.31	2019–2024	13,734,951	8.46–9.34	2019–2020	8,558,292
Domestic corporate bonds – unsecured (b)	4.01–8.19	2019–2021	26,696,147	4.01–6.33	2018–2021	23,201,093
			<u>55,904,620</u>			<u>38,196,455</u>
			<u>59,645,171</u>			<u>42,949,970</u>



**26. Interest-bearing Bank and Other Borrowings** (continued)

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	<b>1,257,700</b>	4,753,515
In the second year	<b>1,706,275</b>	1,481,182
In the third to fifth years, inclusive	<b>7,661,247</b>	2,197,242
Beyond five years	<b>6,106,000</b>	2,758,646
	<b>16,731,222</b>	11,190,585
Senior notes repayable:		
In the second year	<b>3,867,785</b>	–
In the third to fifth years, inclusive	<b>7,391,280</b>	8,558,292
Beyond five years	<b>2,475,886</b>	–
	<b>13,734,951</b>	8,558,292
Domestic corporate bonds repayable:		
Within one year	<b>2,482,851</b>	–
In the second year	<b>8,017,139</b>	2,478,984
In the third to fifth years, inclusive	<b>18,679,008</b>	20,722,109
	<b>29,178,998</b>	23,201,093
	<b>59,645,171</b>	42,949,970

Certain items of the Group's borrowings are secured by the Group's assets, details of which are disclosed in note 37.

Except for the above mentioned borrowings denominated in HK\$ and US\$, all borrowings were denominated in RMB as at the end of the reporting period.

## 26. Interest-bearing Bank and Other Borrowings *(continued)*

Notes:

- (a) On 22 March 2012, the Company issued 13.25% senior notes with an aggregate principal amount of US\$400,000,000 (equivalent to approximately RMB2,520,160,000) ("the 2012 Notes"). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 22 March 2017. The senior notes carry interest at a rate of 13.25% per annum, which is payable semi-annually in arrears on 22 March and 22 September of each year commencing on 22 September 2012. For further details on the senior notes, please refer to the related announcements of the Company dated 14 March 2012, 16 March 2012 and 23 March 2012. On 10 November 2016, the Company redeemed the 2012 Notes in full at a redemption price of 100% of the principal amount, plus the applicable premium as of, and accrued and unpaid interest to (but not including) 10 November 2016. For further details, please refer to the related announcements of the Company dated 11 October 2016 and 10 November 2016.

On 29 January 2013, the Company issued 8.625% senior notes with an aggregate principal amount of US\$300,000,000 (equivalent to approximately RMB1,885,530,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 5 February 2020. The senior notes carry interest at a rate of 8.625% per annum, which is payable semi-annually in arrears on 5 February and 5 August of each year commencing on 5 August 2013. For further details on the senior notes, please refer to the related announcements of the Company dated 29 January 2013, 30 January 2013 and 5 February 2013.

On 7 January 2014, the Company issued 8.975% senior notes with an aggregate principal amount of US\$600,000,000 (equivalent to approximately RMB3,662,520,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 14 January 2019. The senior notes carry interest at a rate of 8.975% per annum, which is payable semi-annually in arrears on 14 January and 14 July of each year commencing on 14 July 2014. For further details on the senior notes, please refer to the related announcements of the Company dated 7 January 2014, 8 January 2014 and 14 January 2014.

On 29 July 2014, the Company issued 8.25% senior notes with an aggregate principal amount of US\$400,000,000 (equivalent to approximately RMB2,464,600,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 5 August 2019. The senior notes carry interest at a rate of 8.25% per annum, which is payable semi-annually in arrears on 5 February and 5 August of each year commencing on 5 February 2015. For further details on the senior notes, please refer to the related announcements of the Company dated 29 July 2014, 30 July 2014 and 5 August 2014.

On 11 January 2017, the Company issued 6.00% senior notes with an aggregate principal amount of US\$250,000,000 (equivalent to approximately RMB1,733,113,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 11 January 2022. The senior notes carry interest at a rate of 6.00% per annum, which is payable semi-annually in arrears on 11 January and 11 July of each year, commencing on 11 July 2017. For further details on the senior notes, please refer to the related announcements of the Company dated 29 December 2016, 30 December 2016 and 11 January 2017.

On 26 February 2017, the Company redeemed the outstanding 8.625% senior notes due 2020 with an aggregate principal amount of US\$300,000,000 in full at a redemption price to 104.3125% of the principal amount thereof, plus accrued and unpaid interest. For further details, please refer to the related announcements of the Company dated 27 January 2017 and 2 March 2017.

On 15 March 2017, the Company issued 6.00% senior notes with an aggregate principal amount of US\$400,000,000 (equivalent to approximately RMB2,772,980,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 15 September 2022. The senior notes carry interest at a rate of 6.00% per annum, which is payable semi-annually in arrears on 15 March and 15 September of each year, commencing on 15 September 2017. For further details on the senior notes, please refer to the related announcements of the Company dated 9 March 2017, 10 March 2017 and 16 March 2017.

## 26. Interest-bearing Bank and Other Borrowings *(continued)*

Notes: *(continued)*

(a) *(continued)*

On 29 March 2017, the Company issued additional 6.00% senior notes with an aggregate principal amount of US\$100,000,000 (equivalent to approximately RMB 672,638,000) (to be consolidated and form a single series with the US\$400,000,000 6% senior notes due 2022 issued on 15 March 2017). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 15 September 2022. The senior notes carry interest at a rate of 6.00% per annum, which is payable semi-annually in arrears on 15 March and 15 September of each year commencing on 15 September 2017. For further details on the senior notes, please refer to the related announcements of the Company dated 27 March 2017, 29 March 2017.

On 21 September 2017, the Company issued 5.20% senior notes with an aggregate principal amount of US\$250,000,000 (equivalent to approximately RMB1,646,675,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 21 September 2022. The senior notes carry interest at a rate of 5.20% per annum, which is payable semi-annually in arrears on 21 March and 21 September of each year, commencing on 21 March 2018. For further details on the senior notes, please refer to the related announcements of the Company dated 18 September 2017, 19 September 2017, and 22 September 2017.

On 18 November 2017, the Company redeemed the outstanding 8.25% senior notes due 2019 with an aggregate principle amount of US\$100,000,000 in full at a redemption price to 104.1250% of the principal amount thereof, plus accrued and unpaid interest. For further details, please refer to the related announcements of the Company dated 19 October 2017 and 20 November 2017.

On 10 December 2017, the Company redeemed the outstanding 8.25% senior notes due 2019 with an aggregate principle amount of US\$300,000,000 in full at a redemption price to 104.1250% of the principal amount thereof, plus accrued and unpaid interest. For further details, please refer to the related announcements of the Company dated 10 November 2017 and 11 December 2017.

On 10 November 2017, the Company issued additional 5.875% senior notes with an aggregate principal amount of US\$400,000,000 (equivalent to approximately RMB2,651,280,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 10 November 2024. The senior notes carry interest at a rate of 5.875% per annum, which is payable semi-annually in arrears on 10 May and 10 November of each year commencing on 10 May 2018. For further details on the senior notes, please refer to the related announcements of the Company dated 7 November 2017, 8 November 2017, and 10 November 2017.

On 7 December 2017, the Company issued additional 6.00% senior notes with an aggregate principal amount of US\$150,000,000 (equivalent to approximately RMB 992,925,000) (to be consolidated and form a single series with the US\$400,000,000 6% senior notes due 2022 issued on 15 March 2017, and the US\$100,000,000 6% senior notes due 2022 issued on 29 March 2017). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 15 September 2022. The senior notes carry interest at a rate of 6.00% per annum, which is payable semi-annually in arrears on 15 March and 15 September of each year commencing on 15 March 2018. For further details on the senior notes, please refer to the related announcements of the Company dated 27 March 2017, 29 March 2017, 1 December 2017 and 7 December 2017.

(b)(i) On 17 December 2015, Guangzhou Hejing, a wholly-owned subsidiary of the Group, issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB3,300,000,000. The domestic corporate bonds consist of two types, of which the first type has a term of six years and bears a coupon rate at 4.94% per annum with the issuer's option to raise the coupon rate after the end of the third year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 1 Bonds"), and the second type has a term of seven years and bears a coupon rate at 6.15% per annum with the issuer's option to raise the coupon rate after the end of the fifth year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 2 Bonds").

The aggregate principal amount for the Type 1 Bonds issued was RMB2,500,000,000 and the aggregate principal amount for the Type 2 Bonds issued was RMB800,000,000.

For further details of the domestic corporate bonds, please refer to the related announcements of the Company dated 15 December 2015 and 16 December 2015.

## 26. Interest-bearing Bank and Other Borrowings *(continued)*

Notes: *(continued)*

- (b)(ii) On 28 March 2016, Guangzhou Tianjian, a wholly-owned subsidiary of the Group, issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB2,200,000,000.

The domestic corporate bonds consist of two types, of which the first type has a term of six years and bears a coupon rate at 3.90% per annum with the issuer's option to raise the coupon rate after the end of the third year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 3 Bonds"), and the second type has a term of ten years and bears a coupon rate at 4.80% per annum with the issuer's option to raise the coupon rate after the end of the fifth year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 4 Bonds").

The aggregate principal amount for the Type 3 Bonds issued was RMB600,000,000 and the aggregate principal amount for the Type 4 Bonds issued was RMB1,600,000,000.

For further details of the domestic corporate bonds, please refer to the related announcements of the Company dated 24 March 2016 and 28 March 2016.

- (b)(iii) On 26 April 2016, Guangzhou Tianjian issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB6,500,000,000.

The domestic corporate bonds consist of two types, of which the first type has a term of seven years and bears a coupon rate at 5.60% per annum with the issuer's option to raise the coupon rate after the end of the fourth year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 5 Bonds"), and the second type has a term of seven years and bears a coupon rate at 5.80% per annum with the issuer's option to raise the coupon rate after the end of the fifth year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 6 Bonds").

The aggregate principal amount for the Type 5 Bonds issued was RMB1,000,000,000 and the aggregate principal amount for the Type 6 Bonds issued was RMB5,500,000,000.

For further details of the domestic corporate bonds, please refer to the related announcements of the Company dated 7 April 2016 and 26 April 2016.

- (b)(iv) On 21 July 2016, the Company issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB2,000,000,000.

The domestic corporate bonds have a term of five years and bear a coupon rate at 4.85% per annum with the issuer's option to adjust the coupon rate after the end of the third year from the date of issue of the domestic corporate bonds and the investors can exercise retractable option.

For further details of the domestic corporate bonds, please refer to the related announcement of the Company dated 21 July 2016.

- (b)(v) On 28 July 2016, the Company issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB1,300,000,000.

The domestic corporate bonds have a term of five years and bear a coupon rate at 4.95% per annum with the issuer's option to adjust the coupon rate after the end of the third year from the date of issue of the domestic corporate bonds and the investor can exercise retractable option.

For further details of the domestic corporate bonds, please refer to the related announcement of the Company dated 28 July 2016.

## 26. Interest-bearing Bank and Other Borrowings *(continued)*

Notes: *(continued)*

- (b)(vi) On 30 September 2016, the Company issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB8,000,000,000.

The domestic corporate bonds consist of three types, of which the first type has a term of seven years and bears a coupon rate at 5.6% per annum with the issuer's option to adjust the coupon rate after the end of the fourth year from the date of issue of the domestic corporate bonds and the investors' option to sell back to the issuer (the "Type 7 Bonds"), the second type has a term of seven years and bears a coupon rate at 5.7% per annum with the issuer's option to adjust the coupon rate after the end of the fourth and a half year from the date of issue of the domestic corporate bonds and the investors' option to sell back to the issuer (the "Type 8 Bonds"), and the third type has a term of seven years and bears a coupon rate at 5.8% per annum with the issuer's option to adjust the coupon rate after the end of the fifth year from the date of issue of the domestic corporate bonds and the investors' option to sell back to the issuer (the "Type 9 Bonds").

The aggregate principal amount for Type 7 Bonds issued was RMB2,500,000,000; the aggregate amount for Type 8 Bonds issued was RMB2,500,000,000 and the aggregate amount for Type 9 Bonds issued was RMB3,000,000,000.

For further details of the domestic corporate bonds, please refer to the related announcement of the Company dated 30 September 2016.

- (b)(vii) On 26 September 2017, the Guangzhou Hejing issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB3,000,000,000.

The domestic corporate bonds consist of two types, of which the first type has a term of five years and bears a coupon rate at 7.85% per annum with the issuer's option to raise the coupon rate after the end of the third year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 10 Bonds"), and the second type has a term of three years and bears a coupon rate at 7.50% per annum with the issuer's option to raise the coupon rate after the end of the second year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 11 Bonds").

The aggregate principal amount for the Type 10 Bonds issued was RMB1,000,000,000 and the aggregate principal amount for the Type 11 Bonds issued was RMB2,000,000,000.

For further details of the domestic corporate bonds, please refer to the related announcements of the Company dated 25 September 2017 and 26 September 2017.

- (b)(viii) On 16 October 2017, the Guangzhou Hejing issued domestic corporate bonds in the PRC with an aggregate principal amount of RMB3,000,000,000.

The domestic corporate bonds consist of two types, of which the first type has a term of five years and bears a coupon rate at 8.00% per annum with the issuer's option to raise the coupon rate after the end of the third year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 12 Bonds"), and the second type has a term of three years and bears a coupon rate at 7.50% per annum with the issuer's option to raise the coupon rate after the end of the second year from the date of issue of the domestic corporate bonds and the investors' option to sell back the domestic corporate bonds to the issuer (the "Type 13 Bonds").

The aggregate principal amount for the Type 12 Bonds issued was RMB840,000,000 and the aggregate principal amount for the Type 13 Bonds issued was RMB2,160,000,000.

For further details of the domestic corporate bonds, please refer to the related announcements of the Company dated 16 October 2017.



## 27. Deferred Tax

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

### Deferred tax liabilities

	2017					Total RMB'000
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Revaluation of investment properties RMB'000	Withholding taxes RMB'000	Other RMB'000	
At 1 January 2017	69,645	102,223	1,374,901	139,720	-	1,686,489
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	6,889	(16,670)	300,606	-	-	290,825
Deferred tax charged to the statement of changes in equity during the year	-	-	-	-	9,725	9,725
Gross deferred tax liabilities at 31 December 2017	76,534	85,553	1,675,507	139,720	9,725	1,987,039

**27. Deferred Tax** (continued)**Deferred tax assets**

	Depreciation in excess of related depreciation allowance RMB'000	Provision of LAT RMB'000	2017			Total RMB'000
			Losses available for offsetting against future taxable profits RMB'000	Accruals RMB'000	Government grant RMB'000	
At 1 January 2017	2,212	1,426,964	244,435	116,171	3,423	1,793,205
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	253	210,814	27,157	7,486	(12)	245,698
Derecognition of subsidiaries (note 35)	-	-	(26,327)	-	-	(26,327)
Gross deferred tax assets at 31 December 2017	2,465	1,637,778	245,265	123,657	3,411	2,012,576
Net deferred tax charged to the statement of profit or loss during the year (note 10)						(45,127)
Net deferred tax assets at 31 December 2017						25,537

**Deferred tax liabilities**

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	2016		Total RMB'000
			Revaluation of investment properties RMB'000	Withholding taxes RMB'000	
At 1 January 2016	61,182	30,571	1,333,579	139,720	1,565,052
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	8,463	(3,290)	41,322	-	46,495
Acquisition of subsidiaries (note 33)	-	74,942	-	-	74,942
Gross deferred tax liabilities at 31 December 2016	69,645	102,223	1,374,901	139,720	1,686,489

## 27. Deferred Tax (continued)

### Deferred tax assets

	Depreciation in excess of related depreciation allowance RMB'000	Provision of LAT RMB'000	2016 Losses available for offsetting against future taxable profits RMB'000	Accruals RMB'000	Government grant RMB'000	Total RMB'000
At 1 January 2016	1,961	1,290,063	181,767	169,415	3,466	1,646,672
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	251	136,901	62,646	(53,244)	(43)	146,511
Acquisition of a subsidiary (note 33)	–	–	527	–	–	527
Disposal of a subsidiary (note 34)	–	–	(505)	–	–	(505)
Gross deferred tax assets at 31 December 2016	2,212	1,426,964	244,435	116,171	3,423	1,793,205
Net deferred tax credited to the statement of profit or loss during the year (note 10)						100,016
Net deferred tax assets at 31 December 2016						106,716

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

	2017 RMB'000	2016 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	<b>1,410,904</b>	1,332,532
Net deferred tax liabilities recognised in the consolidated statement of financial position	<b>(1,385,367)</b>	(1,225,816)
	<b>25,537</b>	106,716

The Group has unutilised tax losses arising in Mainland China of approximately RMB2,185,381,000 (2016: approximately RMB2,151,957,000) that will expire in one to five years for offsetting against future taxable profits of the entities in which the losses arose. Deferred tax assets have not been recognised in respect of the tax losses amounting to approximately RMB1,204,321,000 (2016: approximately RMB1,174,217,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that future taxable profits will be available against which the tax losses can be utilised.

## 27. Deferred Tax *(continued)*

### Deferred tax assets *(continued)*

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. As at 31 December 2017, unremitted earnings that are subjected to withholding taxes of the Group's subsidiaries and joint ventures established in the Mainland China of approximately RMB11,649,963,000 (2016: approximately RMB9,006,715,000) have not been recognised for withholding taxes.

Taking into account of the Group's dividend policy and the working capital demand for business operation in Mainland China, the directors of the Company are of the view that it is the best interest of the Company to distribute its final dividend in the foreseeable future out of the share premium account of the Company, which is permissible by the Companies Law of Cayman Islands and is also permissible by the Company's article of associations upon the approval of the Company's shareholders at the annual general meeting. There are no income tax consequences attaching to the payment of dividends by the Company out of the share premium account of the Company.

In the opinion of the directors of the Company, the Company has sufficient distributable reserves, including the Company's share premium to meet its dividend policy in the foreseeable future, and it is not probable that dividends would be declared by the Group's subsidiaries and joint ventures established in Mainland China in the foreseeable future. Accordingly, the Group did not provide additional deferred tax related to the unremitted earnings of the Group's subsidiaries and joint ventures established in Mainland China that are subject to withholding taxes once distributed.

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

## 28. Deferred Revenue

The Group entered into an agreement with a vendor (the "Vendor") on 7 July 2011, pursuant to which the Group should pay a cash consideration of RMB43,400,000, and transfer certain apartments and car parking spaces (collectively, the "Transfer Properties") of RMB11,000,000 to the Vendor, in exchange for the 10% equity interest in Shanghai Deyu. The exchange of the Transfer Properties is accounted for as a transaction which generates revenue. During the year ended 31 December 2014, the Group entered into a supplemental agreement with the Vendor, pursuant to which the Group paid cash consideration of RMB8,958,000 to the Vendor in replace of transferring partial apartments and car parking spaces to the Vendor. As at 31 December 2017, the remaining apartments and car parking spaces had not been transferred to the Vendor. Accordingly, the above revenue is deferred and will be recognised upon the delivery of the remaining parts of the Transfer Properties.

## 29. Share Capital

### Shares

	2017		2016	
	No. of shares	RMB'000	No. of shares	RMB'000
Authorised:				
Ordinary shares of HK\$0.10 each	<b>8,000,000,000</b>	<b>786,113</b>	8,000,000,000	786,113
Issued and fully paid:				
Ordinary shares of HK\$0.10 each	<b>3,155,155,055</b>	<b>302,355</b>	3,053,801,748	293,590

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

	Number of shares in issue	Issued capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2016	2,996,482,528	288,663	7,055,349	7,344,012
Share options exercised (note a)	30,000	3	143	146
Final 2015 dividend declared	–	–	(868,980)	(868,980)
Shares issued as scrip dividend during the year	57,289,220	4,924	210,373	215,297
At 31 December 2016 and 1 January 2017	3,053,801,748	293,590	6,396,885	6,690,475
Final 2016 dividend declared	–	–	<b>(1,557,439)</b>	<b>(1,557,439)</b>
Shares issued as scrip dividend during the year	<b>101,353,307</b>	<b>8,765</b>	<b>455,601</b>	<b>464,366</b>
At 31 December 2017	<b>3,155,155,055</b>	<b>302,355</b>	<b>5,295,047</b>	<b>5,597,402</b>

Note:

- (a) The subscription rights attaching to 30,000 share options were exercised at the subscription price of HK\$4.49 per share (note 30), resulting in the issue of 30,000 shares for a total cash consideration, before expenses, of approximately RMB117,000. An amount of approximately RMB29,000 was transferred from the equity-settled share option reserve to the share premium account upon the exercise of the share options.



### 30. Share Option Scheme

Pursuant to a written resolution of the shareholders of the Company on 11 June 2007, the Scheme was conditionally approved. On 3 July 2007, the aforesaid approval of the Scheme became unconditional and effective as the Company's shares were listed on the Stock Exchange of Hong Kong Limited. The Scheme is for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Group's directors, including independent non-executive directors, any full-time or part-time employees of the Group, suppliers, customers, advisers, consultants and agents to the Group. Upon becoming effective, the Scheme will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme must not in aggregate exceed 10% of the shares of the Company in issue immediately following completion of the global offering and the capitalisation issue of the Company's shares in 2007. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme at any time shall not exceed 30% of the shares in issue from time to time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5,000,000 or such other sum as may be from time to time provided under the Listing Rules, within any 12-month period, are subject to the issue of a circular by the Company and the shareholders' approval in advance in a general meeting.

An option may be exercised in accordance with the terms of the Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the board of directors of the Company in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

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

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

On 26 August 2011, the Company granted 7,351,000 share options, to the grantees, including the board of directors of the Company and certain employees of the Group. 4,585,250 share options were forfeited or lapsed during the year ended 31 December 2016. 30,000 share options were exercised by the grantees during the year ended 31 December 2016. No share options were forfeited or lapsed and exercised during the year.

No share options were granted and cancelled under the Scheme during the year (2016: Nil).

The exercise price of the outstanding share options granted on 26 August 2011 was HK\$4.49 per share during the year ended 31 December 2016.

### 30. Share Option Scheme *(continued)*

The closing price of the Company's shares on 26 August 2011, the date of grant, was HK\$4.32 per share.

The share options granted to the executive directors of the Company and employees of the Group are exercisable during the following periods:

#### Share options granted on 26 August 2011

- (i) up to 25% of the share options granted to each grantee at any time after the expiration of 12 months from 26 August 2011;
- (ii) up to 50% of the share options granted to each grantee at any time after the expiration of 24 months from 26 August 2011;
- (iii) up to 75% of the share options granted to each grantee at any time after the expiration of 36 months from 26 August 2011;
- (iv) all the share options granted to each grantee at any time after the expiration of 48 months from 26 August 2011;

and, in each case, not later than 25 August 2016.

The share options granted to the independent non-executive directors of the Company are exercisable at any time prior to 25 August 2016.

HK\$1.00 is payable for acceptance of grant of share options by each grantee.

The fair value of the share options granted on 26 August 2011 determined at the date of grant using the Models was approximately RMB6,696,000.

The following inputs were used to calculate the fair values of the share options granted:

	<b>Options granted on 26 August 2011</b>
Grant date share price	HK\$4.32
Exercise price	HK\$4.49
Expected life	5 years
Expected volatility	66%
Expected dividend yield (%)	3.11%
Risk-free interest rate (%)	0.79%

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

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

### 30. Share Option Scheme *(continued)*

The Models have been used to estimate the fair value of the share options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the share options.

At each reporting date, the Group revises its estimates of the number of share options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in the statement of profit or loss, with a corresponding adjustment to the equity-settled share option reserve.

As at 31 December 2017 and at the date of approval of these financial statements, no share options were outstanding under the Scheme.

### 31. Reserves

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 on pages 71 to 72 of the financial statements.

Pursuant to the relevant laws and regulations in the PRC, the Company's subsidiaries which are registered in the PRC shall appropriate a certain percentage of profit for the year (after offsetting any prior years' losses) calculated under the accounting principles generally applicable to the PRC enterprises to reserve funds which are restricted as to use. During the year ended 31 December 2017, the Group appropriated approximately RMB239,271,000 (2016: approximately RMB163,458,000) to these reserve funds in accordance with the relevant laws and regulations in the PRC.

### 32. Investments in Joint Operations

The Group has entered into three (2016: three) joint venture arrangements in the form of joint operations with certain parties, to jointly undertake three (2016: three) property development projects located in Guangzhou, Guangdong Province, the PRC. As at 31 December 2017, the aggregate amounts of assets and liabilities recognised in respect of these joint operations were as follows:

	2017 RMB'000	2016 RMB'000
Assets	<b>4,057,685</b>	3,931,002
Liabilities	<b>(179,321)</b>	(185,146)

### 33. Business Combination

- (i) On 24 January 2017, the Group acquired a 60% equity interest in Hubei Jinkaida from a third party. Hubei Jinkaida is principally engaged in property development. The purchase consideration for the acquisition was in the form of cash, with RMB30,000,000 fully paid on the acquisition date.

The fair values of the identifiable assets and liabilities of Hubei Jinkaida as at the date of acquisition were as follows:

	<b>Fair value recognised on acquisition RMB'000</b>
Properties under development	47,941
Cash and cash equivalents	40,000
Other payables and accruals	(37,941)
<b>Total identifiable net assets at fair value</b>	<b>50,000</b>
<b>Non-controlling interests</b>	<b>(20,000)</b>
<b>Satisfied by cash</b>	<b>30,000</b>

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

	<b>RMB'000</b>
Cash consideration	(30,000)
Cash and cash equivalents acquired	40,000
<b>Net inflow of cash and cash equivalents included in cash flows from investing activities</b>	<b>10,000</b>

Since the acquisition, Hubei Jinkaida did not contribute to the Group's revenue and caused a loss of approximately RMB795,000 to the Group's consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year ended 31 December 2017 would have been approximately RMB11,543,072,000 and RMB3,605,013,000, respectively.

### 33. Business Combination *(continued)*

- (ii) On 31 August 2017, the Group acquired a 100% equity interest in Wealth Stretch Investments Limited ("Wealth Stretch") from a third party. Wealth Stretch is principally engaged in property development. The purchase consideration for the acquisition was in the form of cash, with approximately RMB139,531,000 fully paid on the acquisition date.

The fair values of the identifiable assets and liabilities of Wealth Stretch as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Properties under development	154,800
Cash and cash equivalents	1,898
Prepayments, deposits and other receivables	64,003
Tax recoverable	68
Other payables and accruals	<b>(81,238)</b>
<b>Total identifiable net assets at fair value</b>	<b>139,531</b>
Satisfied by cash	<b>139,531</b>

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

	RMB'000
Cash consideration	<b>(139,531)</b>
Cash and bank balances acquired	<b>1,898</b>
<b>Net outflow of cash and cash equivalents included in cash flows from investing activities</b>	<b>(137,633)</b>

Since the acquisition, Wealth Stretch did not contribute to the Group's revenue and caused a loss of approximately RMB91,000 to the Group's consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year ended 31 December 2017 would have been approximately RMB11,543,072,000 and RMB3,604,897,000, respectively.



### 33. Business Combination *(continued)*

- (iii) On 30 April 2016, the Group acquired a 55% equity interest in Chengdu Fangyuan Hengyue Real Estate Co., Limited (“Chengdu Fangyuan”)<sup>#</sup> from a third party. Chengdu Fangyuan is principally engaged in property development. The purchase consideration for the acquisition was in the form of cash, with approximately RMB12,222,000 fully paid on the acquisition date.

The fair values of the identifiable assets and liabilities of Chengdu Fangyuan as at the date of acquisition were as follows:

	Note	Fair value recognised on acquisition RMB'000
Properties under development		909,847
Cash and cash equivalents		55
Prepayments, deposits and other receivables		465,497
Trade payables		(2,193)
Other payables and accruals		(1,324,105)
Deferred tax liabilities	27	(24,135)
Total identifiable net assets at fair value		24,966
Non-controlling interests		(12,744)
Satisfied by cash		12,222

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

	RMB'000
Cash consideration	(12,222)
Cash and cash equivalents acquired	55
Net outflow of cash and cash equivalents included in cash flows from investing activities	(12,167)

<sup>#</sup> The English name of this company referred to in these financial statements represents management's best effort to translate the Chinese name of that company, as no English name has been registered.

Since the acquisition, Chengdu Fangyuan had not contributed to the Group's revenue and caused a loss of approximately RMB2,744,000 to the Group's consolidated profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year ended 31 December 2016 would have been approximately RMB8,865,329,000 and RMB3,460,542,000, respectively.

### 33. Business Combination *(continued)*

- (iv) On 28 October 2016, the Group acquired a 55% equity interest in Sichuan Province Hengli Culture Tourism Development Co., Limited (“Hengli Culture”)<sup>#</sup> from a third party. Hengli Culture is principally engaged in property development. The purchase consideration for the acquisition was in the form of cash, with approximately US\$6,039,000 (equivalent to approximately RMB40,977,000) to be paid pursuant to the agreed timetable with the seller.

The fair values of the identifiable assets and liabilities of Hengli Culture as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Properties under development	52,886
Cash and cash equivalents	3
Prepayments, deposits and other receivables	23,002
Trade payables	(857)
Other payables and accruals	(531)
Total identifiable net assets at fair value	74,503
Non-controlling interests	(33,526)
Satisfied by other payable	40,977

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

	RMB'000
Cash consideration	–
Cash and cash equivalents acquired	3
Net inflow of cash and cash equivalents included in cash flows from investing activities	3

<sup>#</sup> The English name of this company referred to in these financial statements represents management's best effort to translate the Chinese name of that company, as no English name has been registered.

Since the acquisition, Hengli Culture had not contributed to the Group's revenue and caused a loss of approximately RMB389,000 to the Group's consolidated profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year ended 31 December 2016 would have been approximately RMB8,865,329,000 and RMB3,461,197,000, respectively.

### 33. Business Combination *(continued)*

- (v) The Group previously held 51% equity interest in Suzhou Yujing and accounted for Suzhou Yujing as a joint venture of the Group. Suzhou Yujing is principally engaged in property development. On 2 November 2016, the Group acquired the remaining 49% equity interest in Suzhou Yujing from Suzhou Industrial Park Jia'an Investment Co., Limited\*. The purchase consideration for the acquisition was in the form of cash, with RMB49,000,000 fully paid on the acquisition date.

The fair values of the identifiable assets and liabilities of Suzhou Yujing as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	13	1
Completed properties held for sale		562,630
Cash and cash equivalents		80,751
Trade receivables		24
Prepayments, deposits and other receivables		1,138,171
Deferred tax assets	27	527
Trade payables		(59,864)
Other payables and accruals		(1,557,547)
Tax payables		(13,886)
Deferred tax liabilities	27	(50,807)
<b>Total identifiable net assets at fair value</b>		<b>100,000</b>
51% equity interest in Suzhou Yujing held by the Group prior to the acquisition		(51,000)
Satisfied by cash		49,000
Gain on acquisition of a subsidiary:		
Fair value of the previously held 51% equity interest in Suzhou Yujing at the date of acquisition		51,000
Deficiency in assets of Suzhou Yujing shared by the Group at the date of acquisition		(6,198)
<b>Gain on acquisition of a subsidiary</b>	<b>5</b>	<b>57,198</b>

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

	RMB'000
Cash consideration	(49,000)
Cash and cash equivalents acquired	80,751
<b>Net inflow of cash and cash equivalents included in cash flows from investing activities</b>	<b>31,751</b>

### 33. Business Combination *(continued)*

(v) *(continued)*

# The English name of this company referred to in these financial statements represents management's best effort to translate the Chinese name of that company, as no English name has been registered.

Since the acquisition, Suzhou Yujing contributed approximately RMB20,570,000 to the Group's revenue and caused a loss of approximately RMB1,326,000 to the Group's consolidated profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year ended 31 December 2016 would have been approximately RMB9,083,798,000 and RMB3,464,374,000, respectively.

### 34. Disposal of a Subsidiary

During the year ended 31 December 2016, the Group entered into the share transfer agreements for the disposal of its entire equity interest in a wholly-owned subsidiary for a total consideration of RMB43,739,000.

Details of the net assets disposed of as at the date of disposal under the share transfer agreements and the financial impacts are summarised below:

	Notes	2016 RMB'000
Net assets disposed of:		
Property, plant and equipment	13	558
Deferred tax assets	27	505
Prepayments, deposits and other receivables		2
Cash and cash equivalents		311
Properties under development		234,438
Other payables and accruals		(236,783)
		(969)
Gain on disposal of a subsidiary	5	44,708
		43,739
Satisfied by cash		43,739

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2016 RMB'000
Cash consideration	43,739
Cash and cash equivalents disposed of	(311)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	43,428

## 35. Notes to the Consolidated Statement of Cash Flow

### (a) Derecognition of subsidiaries

- (i) During the year ended 31 December 2017, the Group entered into a shareholder agreement with Shenzhen Junrui Hexin Investment Co., Limited (“Junrui Hexin”)<sup>#</sup>, pursuant to which, the Group increased its investment by RMB359,000,000 and Junrui Hexin injected cash consideration of RMB441,000,000 to obtain 49% of fully diluted equity interest in Foshan Hongsheng Real Estate Development Limited (“Foshan Hongsheng”)<sup>#</sup>, a wholly-owned subsidiary of the Company before the capital injection. Subsequent to the capital injection by Junrui Hexin, all significant resolutions of Foshan Hongsheng shall be approved by the Group and Junrui Hexin unanimously, hence the Group no longer has unilateral control, but has joint control over Foshan Hongsheng, and accordingly, Foshan Hongsheng was derecognised as a subsidiary of the Company and recognised as a joint venture of the Group on 26 June 2017.

Details of the net assets derecognised as at the date of derecognition and the financial impacts are summarised below:

	Notes	RMB'000
Net assets derecognised:		
Property, plant and equipment	13	155
Deferred tax assets	27	10,150
Properties under development		4,040,592
Prepayments, deposits and other receivables		2,090,013
Cash and cash equivalents		5,457
Tax recoverables		3,471
Trade and bills payables		(13)
Other payables and accruals		(3,407,486)
Interest-bearing bank and other borrowings		(2,600,000)
Net assets value derecognised		142,339

An analysis of the net cash outflow of cash and cash equivalents in respect of the derecognition of Foshan Hongsheng is as follows:

	RMB'000
Cash consideration for additional investment in Foshan Hongsheng	(359,000)
Cash and cash equivalents derecognised	(5,457)
Net cash outflow of cash and cash equivalents in respect of the derecognition of Foshan Hongsheng	(364,457)

<sup>#</sup> The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of those companies, as no English names have been registered.



### 35. Notes to the Consolidated Statement of Cash Flow *(continued)*

#### (a) Derecognition of subsidiaries *(Continued)*

- (ii) During the year ended 31 December 2017, the Group entered into a shareholder agreement with Guangdong Fangyuan Culture Development Co., Limited (“Guangdong Fangyuan”)<sup>#</sup>. According to the agreement, all significant resolutions of Tianjin Hongsheng Property Development Limited (“Tianjin Hongsheng”)<sup>#</sup>, a wholly-owned subsidiary of the Company before entering into the agreement, should be approved by the Group and Guangdong Fangyuan unanimously, hence the Group has no unilateral control, but has joint control over Tianjin Hongsheng, and accordingly, Tianjin Hongsheng was derecognised as a subsidiary of the Company and recognised as a joint venture of the Group on 31 May 2017.

Details of the net assets derecognised as at the date of derecognition and the financial impacts are summarised below:

	Notes	RMB'000
Net assets derecognised:		
Property, plant and equipment	13	187
Deferred tax assets	27	6,796
Properties under development		6,447,982
Prepayments, deposits and other receivables		53,577
Cash and cash equivalents		15,078
Tax recoverables		3,844
Trade and bills payables		(1)
Other payables and accruals		(3,374,540)
Interest-bearing bank and other borrowings		(3,100,000)
Net assets value derecognised		52,923

An analysis of the net cash outflow of cash and cash equivalents in respect of the derecognition of Tianjin Hongsheng is as follows:

	RMB'000
Cash and cash equivalents derecognised	(15,078)
Net cash outflow of cash and cash equivalents in respect of the derecognition of Tianjin Hongsheng	(15,078)

<sup>#</sup> The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of those companies, as no English names have been registered.

## 35. Notes to the Consolidated Statement of Cash Flow (continued)

### (a) Derecognition of subsidiaries (Continued)

- (iii) During the year ended 31 December 2017, the Group entered into a shareholder agreement with Guangzhou City Tianrun Industrial Investment Co., Limited (“Guangzhou Tianrun”)<sup>#</sup>. According to the agreement, all significant resolutions of Shanghai Hongjing Real Estate Development Limited (“Shanghai Hongjing”)<sup>#</sup>, a wholly-owned subsidiary of the Company before entering into the agreement, shall be approved by the Group and Guangzhou Tianrun unanimously, hence the Group has no unilateral control, but has joint control over Shanghai Hongjing, and accordingly, Shanghai Hongjing was derecognised as a subsidiary of the Company and recognised as a joint venture of the Group on 31 May 2017.

Details of the net assets derecognised as at the date of derecognition and the financial impacts are summarised below:

	Notes	RMB'000
Net assets derecognised:		
Property, plant and equipment	13	8
Deferred tax assets	27	9,381
Properties under development		5,500,477
Prepayments, deposits and other receivables		86,896
Cash and cash equivalents		2,109
Tax recoverables		339
Trade and bills payables		(4)
Other payables and accruals		(2,207,845)
Interest-bearing bank and other borrowings		(3,300,000)
Net assets value derecognised		91,361

An analysis of the net cash outflow of cash and cash equivalents in respect of the derecognition of Shanghai Hongjing is as follows:

	RMB'000
Cash and cash equivalents derecognised	(2,109)
Net cash outflow of cash and cash equivalents in respect of the derecognition of Shanghai Hongjing	(2,109)

<sup>#</sup> The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of those companies, as no English names have been registered.

### 35. Notes to the Consolidated Statement of Cash Flow *(continued)*

#### (a) Derecognition of subsidiaries *(Continued)*

- (iv) During the year ended 31 December 2017, the Group entered into a share transfer agreement with China Minsheng Trust Co., Limited (“Minsheng Trust”)<sup>#</sup>, pursuant to which Minsheng Trust paid cash consideration of RMB24,500,000 to the Group to obtain 49% equity interest in Hefei Hongtao Real Estate Development Limited (“Hefei Hongtao”)<sup>#</sup>, a wholly-owned subsidiary of the Company before the transaction above. Subsequent to the capital injection by Minsheng Trust, all significant resolutions of Hefei Hongtao shall be approved by the Group and Minsheng Trust, hence the Group no longer has unilateral control, but has joint control over Hefei Hongtao, and accordingly, Hefei Hongtao was derecognised as a subsidiary of the Company and recognised as a joint venture of the Group on 31 May 2017.

Details of the net assets derecognised as at the date of derecognition and the financial impacts are summarised below:

	Note	RMB'000
Net assets derecognised:		
Property, plant and equipment	13	197
Properties under development		1,251,808
Prepayments, deposits and other receivables		297
Cash and cash equivalents		518
Other payables and accruals		(1,204,745)
Tax payables		(8)
Net assets value derecognised		<b>48,067</b>

An analysis of the net cash inflow of cash and cash equivalents in respect of the derecognition of Hefei Hongtao is as follows:

	RMB'000
Cash consideration of transferred 49% equity interest	24,500
Cash and cash equivalents derecognised	(518)
Net cash inflow of cash and cash equivalents in respect of the derecognition of Hefei Hongtao	<b>23,982</b>

<sup>#</sup> The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of those companies, as no English names have been registered.

### 35. Notes to the Consolidated Statement of Cash Flow *(continued)*

#### (a) Derecognition of subsidiaries *(Continued)*

- (v) During the year ended 31 December 2017, the Group entered into a share transfer agreement with Minsheng Trust, pursuant to which Minsheng Trust paid cash consideration of RMB24,500,000 to the Group to obtain 49% of fully diluted equity interest in Hefei Mingyu Real Estate Development Limited (“Hefei Mingyu”)<sup>#</sup>, a wholly-owned subsidiary of the Company before the transaction above. Subsequent to the capital injection by Minsheng Trust, all significant resolutions of Hefei Mingyu shall be approved by the Group and Minsheng Trust, hence the Group no longer has unilateral control, but has joint control over Hefei Mingyu, and accordingly, Hefei Mingyu was derecognised as a subsidiary of the Company and recognised as a joint venture of the Group on 31 May 2017.

Details of the net assets derecognised as at the date of derecognition and the financial impacts are summarised below:

	RMB'000
Net assets derecognised:	
Properties under development	2,081,120
Cash and cash equivalents	66
Other payables and accruals	(2,032,155)
Net assets value derecognised	49,031

An analysis of the net cash inflow of cash and cash equivalents in respect of the derecognition of Hefei Mingyu is as follows:

	RMB'000
Cash consideration of transferred 49% equity interest	24,500
Cash and cash equivalents derecognised	(66)
Net cash inflow of cash and cash equivalents in respect of the derecognition of Hefei Mingyu	24,434

<sup>#</sup> The English name of this company referred to in these financial statements represents management's best effort to translate the Chinese name of that company, as no English name has been registered.

### 35. Notes to the Consolidated Statement of Cash Flow *(continued)*

#### (a) Derecognition of subsidiaries *(Continued)*

- (vi) During the year ended 31 December 2016, the Group entered into a shareholder agreement with Chuangxiang (Shenzhen) Real Estate Co., Limited (“Chuangxiang”)<sup>#</sup>, pursuant to which Chuangxiang injected a cash consideration of RMB20,000,000 to obtain 50% of fully diluted equity interest in Guangzhou Jiejing Tourism Investment Co., Limited (“Jiejing Tourism”)<sup>#</sup>, a wholly-owned subsidiary of the Company before the capital injection. Subsequent to the capital injection by Chuangxiang, all significant resolutions of Jiejing Tourism shall be approved by the Group and Chuangxiang unanimously, hence the Group no longer has unilateral control, but has joint control over Jiejing Tourism, and accordingly, Jiejing Tourism was derecognised as a subsidiary of the Company and recognised as a joint venture of the Group on 1 July 2016.

Details of the net assets derecognised of as at the date of derecognition and the financial impacts are summarised below:

	RMB'000
Net assets derecognised of:	
Properties under development	3,187,781
Prepayments, deposits and other receivables	63,000
Cash and cash equivalents	1,101,135
Trade payables	(1,640,355)
Other payables and accruals	(1,591,557)
Interest-bearing bank borrowings	(1,080,000)
Net assets value derecognised	40,004

An analysis of the net cash outflow of cash and cash equivalents in respect of the derecognition of Jiejing Tourism is as follows:

	RMB'000
Cash and cash equivalents derecognised	(1,101,135)
Net cash outflow of cash and cash equivalents in respect of the derecognition of Jiejing Tourism	(1,101,135)

<sup>#</sup> The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of those Companies, as no English names have been registered.



### 35. Notes to the Consolidated Statement of Cash Flow *(continued)*

#### (b) Changes in liabilities arising from financing activities

	Notes	Interest-bearing bank and other borrowings RMB'000	Other payables and accruals RMB'000
At 1 January 2017		42,949,970	–
Changes from financing cash flows		26,138,587	(1,093,073)
2016 final and interim 2017 dividends payable		–	1,398,453
Premium paid on early redemption of senior notes	6	174,540	–
Interest expenses		2,282,691	–
Interest paid classified as operating cash flows		(2,252,048)	–
Foreign exchange movement		(648,569)	–
Derecognition of subsidiaries	35(a)	(9,000,000)	–
At 31 December 2017		59,645,171	305,380

### 36. Contingent Liabilities

At the end of the reporting period, contingent liabilities of the Group not provided for in the financial statements were as follows:

	Notes	2017 RMB'000	2016 RMB'000
Guarantees given to banks in connection with mortgage granted to certain purchasers of the Group's properties	(a)	5,036,062	7,329,970
Guarantees given to banks in connection with bank loans granted to joint ventures	(b)	12,604,118	5,069,583
		17,640,180	12,399,553

### 36. Contingent Liabilities *(continued)*

Notes:

- (a) As at 31 December 2017 and 2016, the Group provided guarantees to certain banks in respect of mortgage granted by banks relating to the mortgage loans arranged for purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage principals together with the accrued interest and penalty owed by the defaulting purchasers to the banks and the Group is entitled but not limited to take over the legal titles and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon issuance of real estate ownership certificates which will generally be available within one to two years after the purchasers take possession of the relevant properties.

The fair value of the guarantees is not significant and the board of directors of the Company considers that in case of default in payments, the net realisable value of the related properties will be sufficient to cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the years ended 31 December 2017 and 2016 for the guarantees.

- (b) As at 31 December 2017, the banking facilities guaranteed by the Group to joint ventures were utilised to the extent of approximately RMB12,604,118,000 (2016: approximately RMB5,069,583,000).

### 37. Pledge of Assets

- (a) At the end of the reporting period, the following assets of the Group were pledged to certain banks to secure general banking facilities granted to the Group:

	Notes	2017 RMB'000	2016 RMB'000
Buildings	13	2,314,124	2,255,233
Investment properties	14	6,730,515	6,108,762
Land use rights	15	145,530	131,054
Properties under development	18	9,563,836	5,612,689
Completed properties held for sale	19	388,488	1,532,581
Time deposits	23	109,000	–
		<b>19,251,493</b>	15,640,319

- (b) As at 31 December 2017 and 2016, the equity interests of certain subsidiaries of the Group were pledged to certain banks for the loans granted to the Group.
- (c) As at 31 December 2017 and 2016, the senior notes were jointly and severally guaranteed by certain subsidiaries of the Group and were secured by the pledges of their equity interests.
- (d) As at 31 December 2017, the domestic corporate bonds of approximately RMB17,898,024,000 (2016: approximately RMB11,924,401,000) were guaranteed by the Company.

## 38. Operating Lease Arrangements

### (a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 15 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 non-cancellable operating leases with its tenants falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	<b>272,660</b>	221,008
In the second to fifth years, inclusive	<b>472,171</b>	389,937
After five years	<b>46,208</b>	55,187
	<b>791,039</b>	666,132

### (b) As lessee

The Group lease certain items of office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 month to 3 years.

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	<b>22,748</b>	14,280
In the second to fifth years, inclusive	<b>26,848</b>	12,711
	<b>49,596</b>	26,991

### 39. Commitments

In addition to the operating lease commitments detailed in note 38(b) above, the Group had the following capital commitments at the end of the reporting period:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	<b>222,500</b>	334,551
Properties being developed by the Group for sale	<b>3,385,922</b>	2,500,451
Investment properties	<b>251,044</b>	421,548
	<b>3,859,466</b>	3,256,550

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

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for	<b>3,816,196</b>	2,054,222

### 40. Related Party Transactions

(a) During the year ended 31 December 2017, the Group provided project management services to certain joint ventures of the Group for a total cash consideration of approximately RMB196,402,000 (2016: approximately RMB64,748,000), which was recognised as other income of the Group. The management fee income was determined at rates mutually agreed between the Group and the joint ventures.

(b) **Other transactions with related parties**

Details of guarantees given by the Group to banks in connection with bank loans granted to joint ventures are included in note 36 to the financial statements.

## 40. Related Party Transactions *(continued)*

### (c) Outstanding balances with related parties

Details of the Group's balances with its associates and joint ventures are included in notes 16 and 17 respectively to the financial statements.

### (d) Compensation of key management personnel of the Group

	2017 RMB'000	2016 RMB'000
Short term employee benefits	<b>30,950</b>	38,674
Post-employment benefits	<b>643</b>	700
<b>Total compensation paid to key management personnel</b>	<b>31,593</b>	39,374

Further details of directors' and chief executive's emoluments are included in note 8 to the financial statements.

## 41. 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:

### Financial assets – Loans and receivables

	Notes	2017 RMB'000	2016 RMB'000
Trade receivables	20	<b>535,665</b>	156,775
Financial assets included in prepayments, deposits and other receivables	21	<b>2,167,038</b>	1,490,696
Due from a joint venture	17	<b>30,065</b>	30,059
Restricted cash	23	<b>1,268,364</b>	1,130,660
Cash and cash equivalents	23	<b>39,198,957</b>	25,770,912
		<b>43,200,089</b>	28,579,102



## 41. Financial Instruments by Category *(continued)*

### Financial liabilities – Financial liabilities at amortised cost

	Notes	2017 RMB'000	2016 RMB'000
Trade and bills payables	24	<b>2,644,265</b>	5,753,979
Financial liabilities included in other payables and accruals	25	<b>6,493,778</b>	5,454,565
Due to joint ventures	17	<b>27,929,009</b>	21,530,757
Interest-bearing bank and other borrowings	26	<b>59,645,171</b>	42,949,970
		<b>96,712,223</b>	75,689,271

## 42. Fair Value and Fair Value Hierarchy of Financial Instruments

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Financial liabilities:				
Interest-bearing bank and other borrowings	<b>59,645,171</b>	42,949,970	<b>59,167,596</b>	43,617,050

Management has assessed that the fair values of cash and cash equivalents, restricted cash, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and amounts due from/to joint ventures approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

## 42. Fair Value and Fair Value Hierarchy of Financial Instruments *(continued)*

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2017 was assessed to be insignificant.

The Group did not have any financial assets and financial liabilities measured at fair value as at 31 December 2017 and 2016.

During the years ended 31 December 2017 and 2016, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

### Liabilities for which fair values are disclosed:

*As at 31 December 2017*

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Interest-bearing bank and other borrowings	–	59,167,596	–	59,167,596

*As at 31 December 2016*

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Interest-bearing bank and other borrowings	–	43,617,050	–	43,617,050

### 43. Financial Risk Management Objectives and Policies

The financial assets of the Group mainly include cash and cash equivalents, restricted cash, trade receivables, deposits and other receivables, and amounts due from joint ventures. The financial liabilities of the Group mainly include trade and bills payables, other payables and accruals, interest-bearing bank and other borrowings and amounts due to joint ventures.

The main risks arising from the Group's financial instruments are business risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces conservative strategies on its risk management and focuses on minimising potential adverse effects of these risks with material impact on the Group's financial performance. The Group's exposure to these risks is kept to a minimum. Management closely monitors the risk exposure and will consider using derivatives and other instruments to hedge significant risk exposure should the need arise. The board of directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below:

#### Business risk

The Group conducts its operations in Mainland China and Hong Kong, and accordingly, it is subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, the influence of national authorities over pricing and the financing regulations in the property development industry.

#### Interest rate risk

The Group has no significant interest-bearing assets. The Group's exposure to changes in market interest rates relates primarily to the Group's bank loans with floating interest rates. The Group has not used any interest rate swaps to hedge its cash flow interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
<b>2017</b>			
RMB	200	(265,725)	–
Hong Kong dollar	200	(29,106)	–
United States dollar	200	(24,186)	–
RMB	(200)	265,725	–
Hong Kong dollar	(200)	29,106	–
United States dollar	(200)	24,186	–

## 43. Financial Risk Management Objectives and Policies *(continued)*

### Interest rate risk *(continued)*

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
<b>2016</b>			
RMB	200	(155,443)	–
Hong Kong dollar	200	(19,267)	–
RMB	(200)	155,443	–
Hong Kong dollar	(200)	19,267	–

\* Excluding retained profits

### Foreign currency risk

The Group's most businesses are mainly located in the PRC and the transactions are mainly conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB. The Group's foreign currency exposures mainly arise from interest-bearing bank and other borrowings and bank balances denominated in currencies other than the units' functional currencies as at 31 December 2017 and 31 December 2016.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar and Hong Kong dollar exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in HK\$ rate %	Increase/ (decrease) in US\$ rate %	Increase/ (decrease) in profit before tax RMB'000
<b>2017</b>			
If RMB weakens against Hong Kong dollar	<b>(5)</b>	<b>N/A</b>	<b>558,532</b>
If RMB strengthens against Hong Kong dollar	<b>5</b>	<b>N/A</b>	<b>(558,532)</b>
If RMB weakens against United States dollar	<b>N/A</b>	<b>(5)</b>	<b>10,693</b>
If RMB strengthens against United States dollar	<b>N/A</b>	<b>5</b>	<b>(10,693)</b>

### 43. Financial Risk Management Objectives and Policies *(continued)*

#### Foreign currency risk *(continued)*

	Increase/ (decrease) in HK\$ rate %	Increase/ (decrease) in US\$ rate %	Increase/ (decrease) in profit before tax RMB'000
<b>2016</b>			
If RMB weakens against Hong Kong dollar	(5)	N/A	551,087
If RMB strengthens against Hong Kong dollar	5	N/A	(551,087)
If RMB weakens against United States dollar	N/A	(5)	11,172
If RMB strengthens against United States dollar	N/A	5	(11,172)

#### Credit risk

The Group has no concentration of credit risk. The Group's cash and cash equivalents are mainly deposits with state-owned banks in the PRC and high-credit rating banks in Hong Kong.

The carrying amounts of trade and other receivables, an amount due from a joint venture, cash and cash equivalents and restricted cash included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure the obligations of these purchasers for repayments. Detailed disclosure of these guarantees is made in note 36.

#### Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents through the sales proceeds generated from the sale of the properties and having available funding through an adequate amount of credit facilities to meet the Group's construction commitments. The board of directors of the Company expects that the Group's net cash flows from operating activities and additional bank and other borrowings will be available to finance the Group's existing and future property development projects. The Group has a number of alternative plans to mitigate the potential impacts on the Group's working capital should there be any significant adverse changes in the economic environment. The directors consider that the Group will be able to maintain sufficient financial resources to meet its operation needs.

## 43. Financial Risk Management Objectives and Policies *(continued)*

### Liquidity risk *(continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2017					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Interest-bearing bank and other borrowings	–	879,725	6,325,374	55,161,353	10,548,838	72,915,290
Trade and bills payables	2,644,265	–	–	–	–	2,644,265
Other payables and accruals	6,493,778	–	–	–	–	6,493,778
Due to joint ventures	27,929,009	–	–	–	–	27,929,009
Guarantees given to banks in connection with mortgage granted to certain purchasers of the Group's properties	5,036,062	–	–	–	–	5,036,062
Guarantee given to banks in connection with bank loans granted to joint ventures	12,604,118	–	–	–	–	12,604,118
	<b>54,707,232</b>	<b>879,725</b>	<b>6,325,374</b>	<b>55,161,353</b>	<b>10,548,838</b>	<b>127,622,522</b>
	2016					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	–	713,917	6,512,482	41,773,214	3,217,073	52,216,686
Trade and bills payables	5,753,979	–	–	–	–	5,753,979
Other payables and accruals	5,454,565	–	–	–	–	5,454,565
Due to joint ventures	21,530,757	–	–	–	–	21,530,757
Guarantees given to banks in connection with mortgage granted to certain purchasers of the Group's properties	7,329,970	–	–	–	–	7,329,970
Guarantee given to banks in connection with bank loans granted to joint ventures	5,069,583	–	–	–	–	5,069,583
	<b>45,138,854</b>	<b>713,917</b>	<b>6,512,482</b>	<b>41,773,214</b>	<b>3,217,073</b>	<b>97,355,540</b>

### 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.



### 43. Financial Risk Management Objectives and Policies *(continued)*

#### Capital management *(continued)*

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, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

The Group monitors capital using a gearing ratio, which is the net borrowings (total bank and other borrowings net of cash and cash equivalents and restricted cash) divided by total equity. The Group's policy is to maintain a stable gearing ratio. The gearing ratios as at the end of the reporting periods were as follows:

	2017 RMB'000	2016 RMB'000
Net borrowings	<b>19,177,850</b>	16,048,398
Total equity	<b>28,245,693</b>	24,008,912
Gearing ratio	<b>67.9%</b>	66.8%

### 44. Subsequent Events

- (a) On 19 January 2018, the Company adopted the share award scheme and resolved to grant a total of 4,393,500 awarded shares to 28 grantees for nil consideration pursuant to scheme rules. The nominal value of the awarded shares is HK\$439,350. Based on the closing price of the shares of HK\$12.60 as at the date of the grant of the awarded shares, the market value of awarded shares is HK\$55,358,100. For further details on the share award scheme, please refer to the related announcement of the Company dated 19 January 2018.
- (b) On 6 February 2018, as security for the due and punctual performance of Unicorn Bay (Hong Kong) Investments Limited, a joint venture of the Group, under a banking facility agreement ("the Facility Agreement") and the related finance documents, the Company entered into a guarantee deed and provided a guarantee in favour of the security agent (for the benefit of the secured parties under the Facility Agreement) for up to 50% of the guaranteed indebtedness. For further details on the provision of financial assistance, please refer to the related announcement of the company dated 6 February 2018.
- (c) On 13 February 2018, the Company granted a total of 1,719,000 share options at the exercise price of HK\$11.120 per share under the share option scheme adopted by the Company on 9 February 2018. For further details, please refer to the related announcement of the Company dated 13 February 2018.

## 45. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 RMB'000	2016 RMB'000
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	31,032	30,669
Interests in subsidiaries	18,709,321	19,571,784
Interests in joint ventures	9,067,712	3,281,149
Total non-current assets	<b>27,808,065</b>	22,883,602
<b>CURRENT ASSETS</b>		
Prepayments, deposits and other receivables	182,888	103,640
Due from subsidiaries	4,755,324	4,487,711
Cash and cash equivalents	660,840	398,792
Total current assets	<b>5,599,052</b>	4,990,143
<b>CURRENT LIABILITIES</b>		
Other payables and accruals	906,183	528,050
Due to joint ventures	218,192	213,238
Interest-bearing bank and other borrowings	325,802	1,330,422
Total current liabilities	<b>1,450,177</b>	2,071,710
<b>NET CURRENT ASSETS</b>	<b>4,148,875</b>	2,918,433
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>31,956,940</b>	25,802,035
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank and other borrowings	27,524,911	19,834,984
Other payables and accruals	177,217	–
Total non-current liabilities	<b>27,702,128</b>	19,834,984
<b>NET ASSETS</b>	<b>4,254,812</b>	5,967,051
<b>EQUITY</b>		
Issued capital	302,355	293,590
Reserves	3,952,457	5,673,461
<b>TOTAL EQUITY</b>	<b>4,254,812</b>	5,967,051

## 45. Statement of Financial Position of the Company (continued)

Note:

A summary to the Company's reserves is as follows:

	Notes	Share premium account RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Equity-settled share option reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
Balance at 1 January 2016		7,055,349	308,006	(967,710)	4,836	(13,233)	6,387,248
Final 2015 dividend declared	29	(868,980)	-	-	-	-	(868,980)
Shares issued as scrip dividend during the year	29	210,373	-	-	-	-	210,373
Share options exercised	29	143	-	-	(29)	-	114
Transfer of equity-settled share option reserve upon the forfeiture or expiry of share options		-	-	-	(4,807)	4,807	-
Loss for the year		-	-	-	-	(74,370)	(74,370)
Exchange differences on translation into presentation currency		-	-	19,076	-	-	19,076
<b>At 31 December 2016 and 1 January 2017</b>		<b>6,396,885</b>	<b>308,006</b>	<b>(948,634)</b>	<b>-</b>	<b>(82,796)</b>	<b>5,673,461</b>
Final 2016 dividend declared	29	(1,557,439)	-	-	-	-	(1,557,439)
Shares issued as scrip dividend during the year	29	455,601	-	-	-	-	455,601
Interim 2017 dividend		-	-	-	-	(305,380)	(305,380)
Loss for the year		-	-	-	-	(433,635)	(433,635)
Exchange differences on translation into presentation currency		-	-	119,849	-	-	119,849
<b>At 31 December 2017</b>		<b>5,295,047</b>	<b>308,006</b>	<b>(828,785)</b>	<b>-</b>	<b>(821,811)</b>	<b>3,952,457</b>

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation of the Group in preparation for the listing of the Company, over the nominal value of the Company's shares in exchange therefor.

The equity-settled share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

## 46. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 23 March 2018.

## Major Properties held by the Group

Property	The Group's interest (%)	Location	Site area ('000 sq.m.)	Total GFA ('000 sq.m.)	Usage	Expected date of completion
<b>Major completed properties held for sale</b>						
Vision of World	100	Fengxian District, Shanghai	83	206	Residential, serviced apartment, commercial and hotel	N/A
Summer Terrace	100	Haidian District, Beijing	13	30	Residential and commercial	N/A
The Summit	100	Zengcheng District, Guangzhou	835	1,175	Residential, villa, serviced apartment, office and commercial	N/A
Fragrant Seasons	100	Shunyi District, Beijing	373	505	Residential, villa, serviced apartment and commercial	N/A
The Sapphire	100	Xiangcheng District, Suzhou	327	882	Residential, serviced apartment, office and commercial	N/A
Leader Plaza	100	Industrial District, Suzhou	14	77	Serviced apartment, office and commercial	N/A
Chengdu Cosmos	100	South New District, Chengdu	117	642	Residential, serviced apartment, office and commercial	N/A
<b>Major properties under development</b>						
The Summit	100	Zengcheng District, Guangzhou	1,136	1,598	Residential, villa, serviced apartment, office and commercial	2018-2019
KWG Center I	100	Tongzhou District, Beijing	18	128	Serviced apartment, office and commercial	2019
KWG Center II	100	Tongzhou District, Beijing	17	125	Serviced apartment, office and commercial	2018-2019
The Cosmos Chongqing	100	Yubei District, Chongqing	107	391	Residential and commercial	2020
Majestic Mansion	100	Shenhua District, Hangzhou	21	50	Residential and villa	2019
Essence of City	100	Zengcheng District, Guangzhou	38	114	Residential, villa and commercial	2018-2019
Chengdu Cosmos	100	South New District, Chengdu	70	382	Residential, serviced apartment, office, hotel and commercial	2018
Yunshang Retreat	55	Dayi District, Chengdu	210	618	Serviced apartment, office, commercial and hotel	2018

Property	The Group's interest (%)	Usage
<b>Major investment properties</b>		
International Finance Place, Plot J-6, Pearl River New Town, Tianhe District, Guangzhou City, Guangdong Province, the PRC	100	Office and commercial Medium term lease
Global Metropolitan Plaza, 68 Huacheng Avenue, Pearl River New Town, Tianhe District, Guangzhou City, Guangdong Province, the PRC	50	Office and commercial Medium term lease

## Five Year Financial Summary

A summary of the results and of the assets, liabilities and equity of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below. This summary does not form part of the audited financial statements.

### Consolidated Results

	Year ended 31 December				2017 RMB'000
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	
Revenue	9,468,002	10,465,788	8,339,756	8,865,329	<b>11,543,072</b>
Profit before tax	3,703,803	4,645,572	4,662,353	4,527,499	<b>5,555,028</b>
Income tax expenses	(954,550)	(1,377,431)	(1,249,168)	(1,065,893)	<b>(1,950,015)</b>
Profit for the year	2,749,253	3,268,141	3,413,185	3,461,606	<b>3,605,013</b>
Attributable to:					
Owners of the Company	2,749,769	3,272,225	3,416,248	3,464,714	<b>3,620,071</b>
Non-controlling interests	(516)	(4,084)	(3,063)	(3,108)	<b>(15,058)</b>
	2,749,253	3,268,141	3,413,185	3,461,606	<b>3,605,013</b>
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	RMB95 cents	RMB112 cents	RMB115 cents	RMB115 cents	<b>RMB117 cents</b>

### Consolidated Assets, Liabilities and Equity

	As at 31 December				2017 RMB'000
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	
<b>ASSETS</b>					
Non-current assets	25,139,681	30,035,002	37,189,508	35,795,122	<b>53,206,924</b>
Current assets	36,450,703	41,512,013	42,491,909	74,946,688	<b>81,738,114</b>
Total assets	61,590,384	71,547,015	79,681,417	110,741,810	<b>134,945,038</b>
<b>LIABILITIES</b>					
Current liabilities	24,987,343	28,047,614	32,189,706	47,308,585	<b>49,407,316</b>
Non-current liabilities	18,760,879	23,062,985	25,132,795	39,424,313	<b>57,292,029</b>
Total liabilities	43,748,222	51,110,599	57,322,501	86,732,898	<b>106,699,345</b>
<b>EQUITY</b>					
Equity attributable to owners of the Company	17,817,508	20,415,846	22,341,409	23,950,445	<b>27,607,284</b>
Non-controlling interests	24,654	20,570	17,507	58,467	<b>638,409</b>
Total equity	17,842,162	20,436,416	22,358,916	24,008,912	<b>28,245,693</b>



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