Vanke Real Estate (Hong Kong) Company Limited
萬科地產 (香港) 有限公司

Annual report
for the year ended 31 December 2016

Directors' Report

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2016.

Principal place of business

Vanke Real Estate (Hong Kong) Company Limited ("the Company") is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 55/F., Bank of China Tower, 1 Garden Road, Central, Hong Kong.

Principal activity

The principal activity of the Company is investment holding.

Recommended dividend

The directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2016 (2015: RMBNil). Other movements in reserves are set out in the consolidated statement of changes in equity.

Share capital

Details of the movements in share capital of the Company are set out in note 26(c) to the financial statements.

Directors

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

Mr. Wang Wenjin
Ms. Que Dongwu
Mr. Chan Chi Yu
Mr. Sun Jia (appointed on 4 September 2016)
Mr. Yu Liang (appointed on 21 February 2017)

The directors of all subsidiaries of the group during the financial year were:

Mr. Ang Cheng Lang
Mr. Bi Jiqing
Mr. Chan Chi Yu
Mr. Chan Wing Kit
Mr. Chang Jingren
Mr. Chang Le
Mr. Chen Jiangming
Mr. Chen Jianping
Ms. Chen Jiao
Mr. Chen Ming
Mr. Chen Shaowei
Mr. Li Jianzhang
Mr. Li Rongjie
Mr. Li Xiaochuan
Mr. Lian Lianggui
Mr. Liang Deping
Mr. Lin Qiang
Mr. Liu Bingyang
Mr. Liu Bo
Mr. Liu Guofa
Mr. Liu Jianhua
Mr. Liu Jiren
Mr. Wang Hong
Mr. Wang Jixiang
Mr. Wang Nan
Mr. Wang Qifan
Mr. Wang Tiehua
Mr. Wang Wenjin
Mr. Wang Xiaofei
Mr. Wang Xiaoyu
Ms. Wu Elisa
Mr. Wu Nuno
Ms. Wu Ping

Mr. Cho Shu Ki Simon	Mr. Liu Xiao	Mr. Wu Wei
Ms. Chun Muyiyi	Ms. Liu Xinping	Mr. Wu Zhenghai
Mr. Deng Changbin	Mr. Liu Yumin	Mr. Xia Gang
Mr. Ding Changfeng	Mr. Liu Zhifeng	Mr. Xiong Qiang
Ms. Ding Yumei	Ms. Lu Bing	Mr. Yang Kai
Ms. Fan Huating	Mr. Lu Jun	Mr. Yang Tao
Mr. Fang Yan Tak Douglas	Ms. Lu Rongxiu	Mr. Yi Pingan
Mr. Feng Juan	Mr. Lu Wenjun	Mr. Yu Haibing
Mr. Fu Daowu	Mr. Mo Fan	Mr. Yu Liang
Mr. Fu Ruiqing	Mr. Neo Teck Pheng	Mr. Yu Minfeng
Mr. Gao Jun	Mr. Ou Li	Ms. Yu Xiufang
Ms. Geng Mei	Mr. Ou Xiwang	Mr. Zeng Wei
Mr. Gu Cheng	Mr. Pan Gaofeng	Mr. Zeng Yi
Mr. Guo Tao	Mr. Pan Meng	Mr. Zhang Haibing
Mr. Guo Zhenfei	Mr. Pang Jinbao	Mr. Zhang Lei
Mr. Guo Zhensheng	Mr. Peng Haohan	Ms. Zhang Minru
Mr. He Jianya	Mr. Qi Hongfei	Mr. Zhang Wei
Mr. Ho Ioc Tong	Mr. Qi Wei	Mr. Zhang Weimin
Mr. Ho Kuok Fong	Mr. Qi Zhenfeng	Mr. Zhang Xiangrui
Ms. Hong Yan	Mr. Qian Jia	Mr. Zhang Xing
Mr. Hu Zijun	Ms. Que Dongwu	Mr. Zhang Xu
Mr. Hua Lichong	Mr. Shan Xiaohai	Ms. Zhao Jing
Mr. Huang Peikun	Ms. Shen Huiqin	Ms. Zhao Tong
Mr. Ji Tao	Mr. Sheng Jian	Mr. Zheng Qi
Mr. Jia Shaowei	Ms. Sheng Shujun	Mr. Zhong Jianjun
Mr. Jia Shuhai	Mr. Shi Jiangang	Mr. Zhou Quan
Mr. Jiang Wei	Ms. Shu Zhen	Mr. Zhou Rong
Mr. Jiang Yu	Mr. Sun Jia	Ms. Zhou Tong
Mr. Jin Hui	Ms. Tan Liehong	Mr. Zhou Yingjie
Mr. Jing Hongjian	Mr. Tan Wei	Ms. Zhou Youtao
Mr. Lee Sau Hun	Mr. Tan Xuewen	Ms. Zhou Yu
Mr. Li Bin	Ms. Tan Yang	Mr. Zhu Yungang
Mr. Li Bo	Mr. Tang Jiyang	Mr. Zhu Zhenxing
Mr. Li Dong	Mr. Tao Yongsheng	Mr. Zong Weiguo

There being no provision in the Company's articles of association in connection with the retirement of directors, all existing directors continue in office for the following year.

At no time during the year was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

No contract of significance to which the Company, or any of its holding companies or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Directors' Report (continued)

Directors' interests in transactions, arrangements or contracts

No contract of significance to which the company, or any of its holding company or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board,

Director
Hong Kong

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Independent auditor's report to the members of Vanke Real Estate (Hong Kong) Company Limited

(incorporated in Hong Kong with limited liability)

Opinion

We have audited accompanying the consolidated financial statements of Vanke Real Estate (Hong Kong) Company Limited ("the Company") and its subsidiaries ("the Group), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

Independent auditor's report to the members of Vanke Real Estate (Hong Kong) Company Limited (continued)

(incorporated in Hong Kong with limited liability)

Key audit matters (continued)

<table>
<tr><td colspan="2">Net realisable value of inventories</td></tr>
<tr><td colspan="2">Refer to note 17 to the consolidated financial statements and the accounting policies in note 2(l).</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>As at 31 December 2016, the aggregate carrying value of the Group's properties held for development ("PHD"), properties under development ("PUD") and completed properties held for sale (together "inventories") was significant. These properties are stated at the lower of cost and net realisable value.

The calculation of the net realisable value for each property development project at the financial reporting date is performed by management.

The calculation of the net realisable value of inventories involves significant management judgement and estimation in preparing updated estimations of the costs to complete each property development project for PHD and PUD as well as in assessing the expected future net selling prices for each property development project (with reference to recent sales transactions in nearby locations), the estimated future selling costs and the relevant taxes.</td><td>Our audit procedures to assess the net realisable value of inventories included the following:

• assessing the design, implementation and operating effectiveness of key internal controls over the preparation and monitoring of management budgets and forecasts of construction and other costs for each property development project;
• evaluating the valuation methodology adopted by management for assessing the net realisable value of inventories and comparing the key estimates and assumptions adopted in the valuations, including those relating to average net selling prices, with market available data and the sales budget plans maintained by the Group;
• comparing the selling prices of properties subsequent to the year end with the carrying values of the respective properties as at 31 December 2016;
comparing the estimated construction costs to complete each property development project with the Group's latest budgets and comparing the costs incurred to 31 December 2016 with budgets as at 31 December 2015 to assess the accuracy of management's forecasting and budgeting process;</td></tr>
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Independent auditor's report to the members of Vanke Real Estate (Hong Kong) Company Limited (continued)

(incorporated in Hong Kong with limited liability)

Key audit matters (continued)

Net realisable value of inventories (continued)	
The key audit matter	**How the matter was addressed in our audit**
We identified the assessment of net realisable value of inventories as a key audit matter because of the significance of inventories to the assets of the Group and because of the inherent risks involved in estimating the costs to complete each property development project and the future selling prices for each property development project, particularly in light of the current economic circumstances and various property market cooling measures introduced by local governments in various cities across Mainland China.	• performing sensitivity analyses to determine the extent of changes in key estimates and assumptions that, either individually or collectively, would be required for inventories to be materially misstated and considering the likelihood of such a movement in those key estimates and assumptions arising and the potential for management bias in their selection.

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Independent auditor's report to the members of Vanke Real Estate (Hong Kong) Company Limited (continued)

(incorporated in Hong Kong with limited liability)

Key audit matters (continued)

<table>
<tr><th colspan="2">Provision for land appreciation tax ("LAT") in Mainland China</th></tr>
<tr><td colspan="2">Refer to notes 3(b)(ii), 8 and 25 to the consolidated financial statements and the accounting policies in note 2(r).</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>LAT in Mainland China is one of the main components of the Group's taxation charge.

LAT is levied on sale of properties at progressive rates ranging from 30% to 60% based on the appreciation of land value. At the end of each financial reporting period, management estimates the provision for LAT based on its understanding and interpretation of the relevant tax rules and regulations and the estimated total sales of properties less total deductible expenditure, which includes lease charges for land use rights, property development costs, borrowing costs and development expenditure. When the LAT is subsequently determined, the actual payments may be different from the estimates.

We identified provision for LAT in Mainland China as a key audit matter because of its significance to the consolidated financial statements and because the estimated provisions for LAT are based on management's judgement and interpretation of the relevant tax laws and regulations and practices.</td><td>Our audit procedures to assess the provision for LAT in Mainland China included the following:
• assessing the design, implementation and operating effectiveness of key internal controls over the calculation of the estimated LAT provisions;
• engaging our internal taxation specialists to assist us in evaluating the Group's LAT provisions as at 31 December 2016 which involved challenging management's assumptions and judgements based on our experience, knowledge and understanding of the practices of the application of the relevant tax laws by the various local tax bureaus;
• challenging management's assumptions and judgments based on our assessment of the value of the estimated sales of properties and the deductible expenditure;
• re-calculating the provision for LAT and comparing our calculations with the amounts recorded by the Group.</td></tr>
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Independent auditor's report to the members of Vanke Real Estate (Hong Kong) Company Limited (continued)

(incorporated in Hong Kong with limited liability)

Key audit matters (continued)

<table>
<tr><td colspan="2">Revenue recognition for property development projects ("PDP")</td></tr>
<tr><td colspan="2">Refer to note 4 to the consolidated financial statements and the accounting policies in note 2(t).</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Revenue from PDP accounted for 99% of the Group's revenue for the year ended 31 December 2016.

Revenue from PDP is recognised when all of the following criteria have been met:
(i) the sale and purchase agreement has been signed
(ii) the related deposit has been received and the arrangements for the settlement of the remaining proceeds have been confirmed; and
(iii) the property is ready for hand-over to the buyer, as stipulated in the sale and purchase agreement.

We identified the recognition of revenue for PDP as a key audit matter because of its significance to the Group and because small errors in recognition of revenue, in aggregate, for each property development project could have a material impact on the Group's profit for the year.</td><td>Our audit procedures to assess the recognition of revenue for PDP included the following:
• evaluating the design, implementation of operating effectiveness of key internal controls over the recording of revenue for PDP;
• inspecting the terms of the standard sale and purchase agreement for sales of PDP to assess the Group's revenue recognition policies for sales of PDP, with reference to the requirements of the prevailing accounting standards;
• inspecting, on a sample basis for sales of PDP recognised during the year, sales and purchase agreements and documents which evidence that the properties are ready for hand-over to buyers and assessing whether the related revenue had been recognised in accordance with the Group's revenue recognition accounting policies;
• inspecting, on a sample basis documents which evidenced that the properties were ready for hand-over to buyers before and after the end of the financial period to assess whether the related revenue had been recognised in the appropriate financial period;
• comparing the average selling price per square metre of PDP for which revenue was recognised during the year, on sample basis, with public information.</td></tr>
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Independent auditor's report to the members of Vanke Real Estate (Hong Kong) Company Limited (continued)

(incorporated in Hong Kong with limited liability)

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all 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.

Responsibilities of the directors for the consolidated financial statements

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

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

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. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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Independent auditor's report to the members of Vanke Real Estate (Hong Kong) Company Limited (continued)

(incorporated in Hong Kong with limited liability)

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

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

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

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

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

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

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

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

We communicate with the directors 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.

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Independent auditor's report to the members of Vanke Real Estate (Hong Kong) Company Limited (continued)

(incorporated in Hong Kong with limited liability)

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

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

From the matters communicated with the directors, 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 Chun Pong.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 APR 2017

Consolidated statement of profit or loss for the year ended 31 December 2016

(Expressed in Renminbi Yuan)

	Note	*2016* RMB'million	*2015* RMB'million
Revenue	4	11,228	9,492
Cost of sales		(8,377)	(7,299)
Gross profit		2,851	2,193
Other (loss)/income	5	(83)	136
Distribution costs		(329)	(251)
Administrative expenses		(207)	(149)
Other operating (expenses)/income	6	(103)	2
Profit from operations		2,129	1,931
Finance costs	7(a)	(559)	(382)
Share of profits less losses of associates	14	934	469
Share of profits less losses of joint ventures	15	1	(7)
Profit before taxation		2,505	2,011
Income tax	8(a)	(1,127)	(690)
Profit for the year		1,378	1,321
Attributable to:			
Equity shareholders of the Company		744	804
Non-controlling interests		634	517
Profit for the year		1,378	1,321

The accompanying notes form part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016

(Expressed in Renminbi Yuan)

	Note	*2016* RMB'million	*2015* RMB'million
Profit for the year		1,378	1,321
Other comprehensive income for the year	10		
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedge: net movement in the hedging reserve		200	(33)
Exchange differences on translation of financial statements of non-mainland China operations		(132)	(65)
Other comprehensive income for the year		68	(98)
Total comprehensive income for the year		1,446	1,223
Attributable to:			
Equity shareholders of the Company		812	706
Non-controlling interests		634	517
Total comprehensive income for the year		1,446	1,223

The accompanying notes form part of these financial statements.

Consolidated statement of financial position at 31 December 2016

(Expressed in Renminbi Yuan)

	Note	*2016* RMB'million	*2015* RMB'million
Non-current assets			
Property, plant and equipment	11	1,836	346
Investment properties	12	109	15
Interest in associates	14	7,780	5,627
Interest in joint ventures	15	2,571	1,187
Other non-current assets	16	8,853	8,944
Deferred tax assets	25(b)	457	381
		21,606	16,500
Current assets			
Inventories	17	28,110	18,033
Prepaid tax	18	734	472
Trade and other receivables	19	47,135	25,379
Pledged deposits	20	14	35
Cash and cash equivalents	21	9,494	2,833
		85,487	46,752
Current liabilities			
Bank loans	22	2,442	237
Bonds payable	23	674	998
Trade and other payables	24	65,887	33,043
Current taxation	25(a)	906	421
		69,909	34,699
Net current assets		15,578	12,053
Total assets less current liabilities		37,184	28,553

Consolidated statement of financial position at 31 December 2016 (continued)

(Expressed in Renminbi Yuan)

	Note	*2016* RMB'million	*2015* RMB'million
Non-current liabilities			
Bank loans	22	2,171	4,296
Bonds payable	23	18,247	9,302
Deferred tax liabilities	25(b)	54	54
		20,472	13,652
NET ASSETS		16,712	14,901
CAPITAL AND RESERVES	26		
Share capital		563	563
Reserves		10,553	9,751
Total equity attributable to equity shareholders of the Company		11,116	10,314
Non-controlling interests		5,596	4,587
TOTAL EQUITY		16,712	14,901

Approved and authorised for issue by the board of directors on 28 APR 2017

Que Dongwu
Director

Sun Jia
Director

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity for year ended 31 December 2016

(Expressed in Renminbi Yuan)

		Attributable to equity shareholders of the Company									
	Note	*Share capital* RMB'million	*Statutory reserves* RMB'million	*Exchange reserve* RMB'million	*Capital contribution reserve* RMB'million	*Other reserve* RMB'million	*Hedging reserve* RMB'million	*Retained profits* RMB'million	*Total* RMB'million	*Non-controlling interests* RMB'million	*Total equity* RMB'million
Balance at 1 January 2015		17	461	272	651	(45)	43	7,663	9,062	3,835	12,897
Changes in equity for 2015											
Profit for the year		-	-	-	-	-	-	804	804	517	1,321
Other comprehensive income	10	-	-	(65)	-	-	(33)	-	(98)	-	(98)
Total comprehensive income		-	-	(65)	-	-	(33)	804	706	517	1,223
Issue of new shares	26(c)	546	-	-	-	-	-	-	546	-	546
Appropriation to statutory reserves	26(d)(i)	-	20	-	-	-	-	(20)	-	-	-
Capital contribution from non-controlling interests		-	-	-	-	-	-	-	-	295	295
Dividends declared to non-controlling interests		-	-	-	-	-	-	-	-	(60)	(60)
Balance at 31 December 2015		563	481	207	651	(45)	10	8,447	10,314	4,587	14,901

Consolidated statement of changes in equity for year ended 31 December 2016 (continued)

(Expressed in Renminbi Yuan)

		Attributable to equity shareholders of the Company									
	Note	*Share capital* RMB'million	*Statutory reserves* RMB'million	*Exchange reserve* RMB'million	*Capital contribution reserve* RMB'million	*Other reserve* RMB'million	*Hedging reserve* RMB'million	*Retained profits* RMB'million	*Total* RMB'million	*Non-controlling interests* RMB'million	*Total equity* RMB'million
Balance at 1 January 2016		563	481	207	651	(45)	10	8,447	10,314	4,587	14,901
Changes in equity for 2016											
Profit for the year		-	-	-	-	-	-	744	744	634	1,378
Other comprehensive income	10	-	-	(132)	-	-	200	-	68	-	68
Total comprehensive income		-	-	(132)	-	-	200	744	812	634	1,446
Appropriation to statutory reserves	26(d)(i)	-	16	-	-	-	-	(16)	-	-	-
Acquisitions of additional interest in subsidiaries		-	-	-	(10)	-	-	-	(10)	(10)	(20)
Capital contribution from non-controlling interests		-	-	-	-	-	-	-	-	185	185
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	259	259
Disposals of interest in subsidiaries		-	-	-	-	-	-	-	-	97	97
Dividends declared to non-controlling interests		-	-	-	-	-	-	-	-	(156)	(156)
Balance at 31 December 2016		563	497	75	641	(45)	210	9,175	11,116	5,596	16,712

The accompanying notes form part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2016

(Expressed in Renminbi Yuan)

	2016 RMB'million	*2015* RMB'million
Operating activities		
Profit before taxation	2,505	2,011
Adjustments for:		
– Depreciation and amortisation	51	18
– Impairment/(reversal of) loss on trade and other receivables	92	(4)
– Finance costs less interest income	214	124
– Net gain from remeasurement of remaining equity interests to fair value upon the loss of control	(33)	-
– Net loss on disposal of property, plant and equipment	1	-
– Share of profits less losses of associates	(934)	(469)
– Share of profits less losses of joint ventures	(1)	7
– Net exchange loss	527	134
Changes in working capital:		
– (Increase)/decrease in inventories	(10,021)	505
– Increase in amount due from the ultimate holding company	(3,017)	(471)
– Increase in amounts due from fellow subsidiaries, associates and joint ventures	(10,605)	(4,922)
– Increase in trade and other debtors and prepayments	(7,889)	(4,758)
– Increase in trade and other payables	13,317	2,290
– Increase /(decrease) in amount due to the ultimate holding company	2,403	(1,665)
– Increase in amounts due to the immediate holding company, fellow subsidiaries, associates and joint ventures	17,309	11,126
Cash generated from operations	3,919	3,926
Current tax paid	(980)	(744)
Net cash generated from operating activities	2,939	3,182

Consolidated cash flow statement for the year ended 31 December 2016 (continued)

(Expressed in Renminbi Yuan)

	Note	*2016* RMB'million	*2015* RMB'million
Investing activities			
Acquisitions of subsidiaries, net of cash acquired	31	(978)	-
Investments in associates and joint ventures		(3,440)	(3,787)
Acquisitions of additional interest in subsidiaries		(21)	-
Advances to fellow subsidiaries		-	(1,707)
Repayment of advances to fellow subsidiaries		396	-
Payment for acquisition of property, plant and equipment		(237)	(10)
Proceeds from disposals of associates and joint ventures		38	-
Proceeds from disposal of property, plant and equipment		-	1
Proceeds from disposals of other investments		67	-
Interest received		345	46
Dividends received		609	-
Net cash used in investing activities		(3,221)	(5,457)
Financing activities			
Proceeds from the issue of new shares		-	546
Capital contributions from non-controlling interests of subsidiaries		185	295
Proceeds from bank loans and issuance of bonds		8,707	2,382
Repayment of loans and borrowings		(1,288)	(244)
Interest paid		(634)	(611)
Dividends paid to non-controlling interests		(149)	(2)
Net cash generated from financing activities		6,821	2,366

Consolidated cash flow statement for the year ended 31 December 2016 (continued)

(Expressed in Renminbi Yuan)

	2016 RMB'million	*2015* RMB'million
Net increase in cash and cash equivalents	6,539	91
Cash and cash equivalents at 1 January	2,833	2,736
Effect of foreign exchange rate changes	122	6
Cash and cash equivalents at 31 December	9,494	2,833

The accompanying notes form part of these financial statements.

Notes to the consolidated financial statements

(Expressed in Renminbi Yuan unless otherwise indicated)

1 Reporting entity

Vanke Real Estate (Hong Kong) Company Limited ("the Company") is a company domiciled in Hong Kong. The consolidated financial statements of the Company for the year ended 31 December 2016 comprise the Company and its subsidiaries (together "the Group") and the Group's interests in associates and joint ventures. The Group's principal activities are development and sale of properties in the People's Republic of China ("PRC").

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). As Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong, are derived from and consistent with IFRSs, these financial statements also comply with HKFRSs. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance.

Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The equivalent new and revised HKFRSs consequently issued by HKICPA as a result of these developments have the same effective date as those issued by the IASB and are in all material respects identical to the pronouncements issued by the IASB. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the derivative financial instruments are stated at their fair value as explained in the accounting policy in note 2(f).

The preparation of financial statements in conformity with IFRSs and HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs and HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. The equivalent amendments to HKFRSs and new Interpretation, consequently issued by HKICPA as a result of these developments, have the same effective date as those issued by the IASB and are in all material respects identical to the pronouncements issued by the IASB.

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 Significant accounting policies (continued)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the group has power, only substantive rights (held by the group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interest, proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 2(n) or 2(o) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)).

2 Significant accounting policies (continued)

(e) Associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

2 Significant accounting policies (continued)

In the Company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (see note 2(k)), unless classified as held for sale included in a disposal group that is classified as held for sale.

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(g)).

(g) Hedging

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(h) Investment property

Investment properties are buildings which are owned or held under a leasehold interest (see note 2(j)) to earn rental income and/or for capital appreciation. These include property that is being constructed or developed for future use as investment property.

Investment properties are stated at cost less accumulated depreciation and accumulated impairment loss. Rental income from investment properties is accounted for as described in note 2(t)(ii).

Depreciation is calculate to write off the costs of investment properties using the straight-line method over the remaining lease term of the land use right. Both the remaining lease term of the land use right and residual value, if any, are reviewed at the end of each reporting period.

2 Significant accounting policies (continued)

(i) Property, plant and equipment

The following items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment loss (see note 2(k)):

– buildings held for own use which are situated on leasehold land classified as held under operating lease (see note 2(j)); and

– other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(v)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

	Residual value	*Useful life*
Leasehold land	0%	unexpired term of lease
Hotel and other buildings	4%	the shorter of the unexpired term of lease and 12.5 - 40 years
Improvements to premises	0%	5 years
Machinery and motor vehicles	4%	5 - 20 years
Other equipment	4%	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2 Significant accounting policies (continued)

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is classified as non-current assets and amortised on a straight-line basis over the period of the lease term except where the property is classified as a property, plant and equipment (see note 2(i)) or is held for development for sale (see note 2(l)).

(k) Impairment of assets

(i) Impairment of investments in associates and joint ventures and other receivables

Investments in associates and joint ventures and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

2 Significant accounting policies (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 2(e), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(k)(ii).

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2 Significant accounting policies (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment; and
- investments in subsidiaries, associates and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recognised recoverable amount is estimated.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated, to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

- Reversals of impairment losses

  An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2 Significant accounting policies (continued)

(l) Inventories

Inventories in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

– Property held for development and property under development

The cost of properties held for development and properties under development comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see note 2(v)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

– Completed property for sale

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

2 Significant accounting policies (continued)

(o) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(s)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

2 Significant accounting policies (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria is adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2 Significant accounting policies (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(s)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

2 Significant accounting policies (continued)

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of properties

Revenue arising from the sale of properties is recognised upon the signing of the sale and purchase agreement, the receipt of the deposits and confirmation of arrangement of settlement of remaining sales proceeds or the achievement of status ready for hand-over to customers as stipulated in the sale and purchase agreement, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are presented as “Receipts in advance” under “Trade and other payables”.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Provision of services

Revenue from services is recognised when services are rendered.

2 Significant accounting policies (continued)

(iv) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of operations with functional currency other than Renminbi are translated into Renminbi at the exchange rates approximating the exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation with functional currency other than Renminbi, the cumulative amount of the exchange differences relating to that operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 Significant accounting policies (continued)

(w) Related parties

(1) A person, or a close member of that person's family, is related to the Group if 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 the Group's parent.

(2) An entity is related to the Group if any of the following conditions applies:

  (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

  (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

  (iii) Both entities 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 (1).

  (vii) A person identified in (1)(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).

  (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 Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 Significant accounting policies (continued)

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 Accounting judgement and estimates

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgments:

(i) Classification between subsidiaries, joint ventures and associates

The Group co-operated with certain third parties to engage in property development project through certain entities. In accordance with the respective co-operation agreements, the Group has the right to acquire certain percentage of the equity interest in these entities at a pre-determined price when certain conditions set out in these agreements are met. The Group has made judgment on the classification of these entities to subsidiaries, joint ventures or associates in accordance with the respective agreements and the involvement of the Group and the other parties in these entities. The Group will continuously evaluate the situation and such investments are accounted for in accordance with accounting policies set out in notes 2(d) and (e).

(ii) 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 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.

3 Accounting judgement and estimates (continued)

(iii) Classification between investment properties and properties held for sale

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgement is made by management on determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention for holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development included in current assets if the properties are intended for sale after their completion, whereas, the properties are accounted for as investment properties under construction if the properties are intended to be held to earn rentals and/or for capital appreciation

(b) Sources of estimation uncertainty

Note 27 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Properties for sale

As explained in note 2(l), the Group's properties for sale are stated at the lower of cost and net realisable value. Based on the Group's recent experience and the nature of the subject properties, the Group makes estimates of the selling prices, the costs of completion in cases for properties held for development and properties under development, and the costs to be incurred in selling the properties based on prevailing market conditions.

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

In addition, given the volatility of the PRC property market and the unique nature of individual properties, the actual outcomes in terms of costs and revenue may be higher or lower than that estimated at the end of the reporting period. Any increase or decrease in the provision would affect profit or loss in future years.

(ii) LAT

As explained in note 8(a), LAT is levied on properties developed by the Group for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including lease charges of land use rights, borrowing cost and relevant property development expenditures. Given the uncertainties of the calculation basis of land appreciation tax to be interpreted by the local tax bureau and the actual appreciation of land value may be different from the original estimates, the actual outcomes may be higher or lower than that estimated at the end of the reporting period. Any increase or decrease in estimates would affect profit or loss in future years.

3 Accounting judgement and estimates (continued)

(iii) Impairment for trade and other receivables

The Group estimates impairment losses for trade and other receivables resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the trade and other receivable balance, customer creditworthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual provisions would be higher than estimated.

(iv) Recognition of deferred tax assets

Deferred tax assets in respect of tax losses and other deductible temporary differences carried forward are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and require a significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

4 Revenue and segment reporting

The principal activities of the Group are development and sale of properties in the PRC.

Revenue mainly represents income from sale of properties net of business tax and other sales related taxes and discounts allowed.

	2016	*2015*
	RMB'million	RMB'million
Sale of properties	11,160	9,451
Others	68	41
	11,228	9,492

The Group's customer base is diversified and none of the customers of the Group with whom transactions has exceeded 10% of the Group's revenue.

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial data and information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. No segment information is presented in respect of the Group's operating segment as the Group is principally engaged in one segment in the PRC. The Group does not operate in any other geographical or business segment during the year.

5 Other (loss)/income

	2016	*2015*
	RMB'million	RMB'million
Interest income from the ultimate holding company	12	9
Interest income from a fellow subsidiary	316	235
Interest income from banks	17	14
Forfeited deposits and compensation from customers	9	4
Net gain from remeasurement of remaining equity interests to fair value upon the loss of control	33	-
Net loss on disposals of property, plant and equipment	(1)	-
Net exchange loss	(527)	(134)
Others	58	8
	(83)	136

6 Other operating (expenses)/income

	2016 RMB'million	*2015* RMB'million
(Provision for)/reversal of provision of doubtful debts	(92)	4
Other sundry expenses	(11)	(2)
	(103)	2

7 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2016 RMB'million	*2015* RMB'million
Interest expense to the ultimate holding company	32	84
Interest expense in respect of bank loans and bonds	666	527
	698	611
Less: Interest expense capitalised as inventories (note)	(149)	(232)
	549	379
Other finance costs	10	3
	559	382

Note: The borrowing costs have been capitalised at a rate of 3.70% per annum (2015: 4.23%).

7 Profit before taxation (continued)

(b) Staff costs

	2016 RMB'million	*2015* RMB'million
Salaries, wages and other benefits	159	103
Contribution to defined contribution retirement plan	9	7
	168	110

Contribution to defined contribution retirement plan

The subsidiaries of the Group in Mainland China participate in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal and provincial government authorities, whereby the Company and the mainland China subsidiaries are required to make contribution at the rate required by different local government authorities. The local government authorities are responsible for the pension obligations payable to the retired employees covered under the Schemes.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees in Hong Kong. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of pension benefits beyond the contributions described above.

(c) Other items

	2016 RMB'million	*2015* RMB'million
Depreciation and amortisation	51	18
Cost of inventories	8,317	7,299
Operating lease charges in respect of properties	5	5
Management fee paid to the ultimate holding company	62	90
Auditor's remuneration		
- audit service	1	1

8 Income tax in the consolidated statement of profit or loss

(a) Taxation in the consolidated statement of profit or loss represents:

	2016 RMB'million	*2015* RMB'million
Current tax		
Provision for CIT	596	446
Provision for LAT	577	286
Withholding tax	30	14
	1,203	746
Deferred tax		
Origination and reversal of temporary differences (note 25(b))	(76)	(56)
	1,127	690

(i) CIT, Hong Kong Profit Tax

The provision for CIT is calculated based on the estimated taxable income at the rates applicable to each company in the Group. The income tax rates applicable to the principal subsidiaries in the PRC are 25% (2015: 25%).

The provision for Hong Kong Profits Tax for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year.

No provision for Hong Kong Profits Tax was made as the Group did not earn any income subject to Hong Kong Profits Tax.

(ii) LAT

LAT is levied on properties developed by the Group for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including lease charges of land use rights, borrowing costs and relevant property development expenditures.

8 Income tax in the consolidated statement of profit or loss (continued)

(iii) Withholding tax

A Withholding tax of 10% is levied on Hong Kong entities in respect of dividend distributions arising from profit of PRC subsidiaries earned after 1 January 2008. Under the China-Hong Kong Tax Treaty and the relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% equity interests or more of a PRC enterprise is entitled to a reduced withholding rate of 5%. The Company and some Hong Kong subsidiaries are entitled to a reduced withholding tax rate of 5%.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2016 RMB'million	*2015* RMB'million
Profit before taxation	2,505	2,011
Less: LAT	(577)	(286)
Profit before CIT	1,928	1,725
Notional tax on profit before CIT calculated at effective income tax rate of the relevant group entities concerned	569	451
Non-taxable income	(147)	(115)
Non-deductible expenses	123	52
Effect of temporary difference not recognised	21	16
Utilisation of previously unrecognised tax losses	(16)	-
CIT	550	404
LAT	577	286
Income tax expense	1,127	690

9 Directors' emoluments

During the year ended 31 December 2016, directors' fee of RMB177,479 (2015: RMBNil) was paid to a director of the Company. No any other amount have been paid in respect of directors' emoluments, directors' or past directors' pensions or for any compensation to directors or past directors in respect of loss of office.

10 Other comprehensive income

There is no tax effect relating to component of the other comprehensive income for the year.

	2016 RMB'million	*2015* RMB'million
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	164	(33)
Reclassification adjustment for amounts transferred to profit or loss on maturity of instruments	36	-
Net movement in the hedging reserve during the year recognised in other comprehensive income	200	(33)

11 Property, plant and equipment

	Buildings held for own use RMB'million	*Improvements to premises* RMB'million	*Leasehold land prepayment* RMB'million	*Machinery and motor vehicles* RMB'million	*Electronic and other equipment* RMB'million	*Construction in progress* RMB'million	*Total* RMB'million
Cost:							
At 1 January 2015	241	86	63	5	31	-	426
Additions	-	4	-	1	5	-	10
Disposals	-	-	-	(1)	(1)	-	(2)
At 31 December 2015	241	90	63	5	35	-	434
At 1 January 2016	241	90	63	5	35	-	434
Additions	45	-	144	-	2	46	237
Transfer	1,300	-	-	-	-	(1,300)	-
Disposals	-	-	-	(1)	(1)	-	(2)
Acquisition of subsidiaries	-	-	5	1	3	1,300	1,309
At 31 December 2016	1,586	90	212	5	39	46	1,978

11 Property, plant and equipment (continued)

	Buildings held for own use RMB'million	*Improvements to premises* RMB'million	*Leasehold land prepayment* RMB'million	*Machinery and motor vehicles* RMB'million	*Electronic and other equipment* RMB'million	*Construction in progress* RMB'million	*Total* RMB'million
Accumulated depreciation:							
At 1 January 2015	36	7	3	4	21	-	71
Charge for the year	8	4	3	-	3	-	18
Written back on disposals	-	-	-	(1)	-	-	(1)
At 31 December 2015	44	11	6	3	24	-	88
At 1 January 2016	44	11	6	3	24	-	88
Charge for the year	27	3	18	-	3	-	51
Acquisition of subsidiaries	-	-	1	1	1	-	3
At 31 December 2016	71	14	25	4	28	-	142
Net book value:							
At 31 December 2016	1,515	76	187	1	11	46	1,836
At 31 December 2015	197	79	57	2	11	-	346

12 Investment properties

	2016 RMB'million	*2015* RMB'million
Cost:		
At 1 January	16	16
Transfer from inventories	94	-
At 31 December	110	16
Accumulated depreciation:		
At 1 January	1	1
Charge for the year	-	-
At 31 December	1	1
Net book value:		
At 31 December	109	15

All investment properties at the end of the reporting period are completed.

The fair value of the Group's investment properties, together with leasehold land on which the investment properties located as set out in note 16, was approximately RMB117 million (2015: RMB18 million) as at 31 December 2016 as determined by the directors of the Company with reference to the valuation performed, using the discounted cash flow ("DCF") approach and the direct market comparison ("DMC"), by Jones Lang LaSalle, an independent qualified professional value.

The valuation for completed investment properties was arrived at by considering the capitalised income derived from the existing tenancies and the reversionary potential of the properties or, where appropriate, by reference to market evidence of transaction prices for similar properties in the same locations and conditions as the Group's investment properties.

The fair value of the investment properties measured at the end of the reporting period is categorised into Level 3 valuations: Fair value measured using significant unobservable inputs, as defined in IFRS 13, Fair value measurement.

(a) The analysis of net book value of investment properties is set out as follows:

	2016 RMB'million	*2015* RMB'million
In the PRC, held on leases of		
– 10 to 50 years	109	15

(b) Assets leased out under operating leases

The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to nineteen years. The leases payment includes fixed rentals and contingent rentals based on business performance of the tenants.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2016	*2015*
	RMB'million	RMB'million
Within 1 year	10	-
After 1 year but within 5 years	36	3
After 5 years	45	3
	91	6

At the end of each reporting period, none of the Group's investment properties were pledged for bank loans.

13 Investment in subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. The class of shares held is ordinary unless otherwise stated.

Name of Company	*Place of incorporation and operation*	*Particulars of issued/ paid up capital*	*Proportion of ownership interest*			*Principal activity*
			Group's effective interest	*Held by the Company*	*Held by a subsidiary*	
Double Falcon Limited	Hong Kong	1,000 shares	100%	100%	-	Investment holding
Excel Guardian Limited	Hong Kong	1 share	100%	100%	-	Investment holding
嘉兴万城房地产开发有限公司 (Jiaxing Wancheng Property Company Limited*)	Jiaxing	USD 30,000,000	70%	-	70%	Property development
嘉兴万联房地产开发有限公司 (Jiaxing Wanlian Real Estate Development Company*)	Jiaxing	RMB 150,000,000	60%	-	60%	Property development
天津万港投资有限公司 (Tianjin Wangang Investment Company Limited*)	Tianjin	RMB 50,000,000	43% (note (b))	-	43% (note (b))	Property development
天津万商地产投资有限公司 (Tianjin Wanshang Real Estate Investment Company Limited*)	Tianjin	RMB 500,000,000	43% (note (b))	-	43% (note (b))	Property development
天津万城置业有限公司 (Tianjin Wancheng Property Company Limited*)	Tianjin	RMB 100,000,000	68%	-	68%	Property development
天津君恒投资有限公司 (Tianjin Junheng Investment Company Limited*)	Tianjin	RMB 61,224,490	43% (note (b))	-	43% (note (b))	Property development
天津万科民和巷有限公司 (note(a)) (Tainjin Minhexiang Company Limited*)	Tianjin	RMB 50,000,000	85%	-	85%	Property development
天津万科房地产有限公司 (Tianjin Vanke Company Limited*)	Tianjin	RMB 390,000,000	85%	-	85%	Investment Holding
西安西恩置业有限公司 (Xi'an Xien Property Company Limited*) (Note (a))	Xi'an	USD 20,000,000	100%	-	100%	Property development
上海东苑美墅置业有限公司 (Shanghai Dongyuan Meishu Property Limited*)	Shanghai	RMB 87,957,343	51%	-	51%	Property development

13 Investment in subsidiaries (continued)

Notes:

(a) These entities is acquired during 2016.

(b) The directors consider these entities as subsidiaries of the Group as the Group is exposed, or has rights, to variable returns from its involvement with these entities and has the ability to affect those returns through its power over these entities.

* These entities are PRC limited liability companies. The English translation of the names are for reference only. The official names of the companies are in Chinese.

The following table lists out the information relating to subsidiaries of the Group which have material non-controlling interests (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	Tianjin Vanke Real Estate Company Limited (Group)		*World City International Inc. (Group)*	
	2016	*2015*	*2016*	*2015*
	RMB'million	RMB'million	RMB'million	RMB'million
NCI percentage	15%	15%	45.8%	45.8%
Current assets	21,431	15,871	4,144	3,333
Non-current assets	1,406	481	-	-
Current liabilities	(17,485)	(11,974)	(1,655)	(1,219)
Net assets	5,352	4,378	2,489	2,114
NCI	1,224	977	148	125
Equity attributable to shareholder	4,128	3,401	2,341	1,989
Carrying amount of NCI	619	510	1,072	911
Revenue	5,876	4,360	1,223	1,442
Profit and total comprehensive income attributable to shareholder for the year	727	356	352	468
Profit and total comprehensive income allocated to NCI	109	53	161	214
Cash flows (used in)/ generated from				
– operating activities	(874)	1,186	332	(23)
– investing activities	(269)	(135)	1	1
– financing activities	1,561	(207)	(103)	(6)

14 Interest in associates

	2016 RMB'million	*2015* RMB'million
Share of net assets	7,780	5,627

The following list contains only the particulars of material associates, all of which are unlisted corporate entities whose quoted market price is not available:

Name of Company	*Place of incorporation and operation*	*Particulars of issued/ paid up capital*	*Proportion of ownership interest* — *Group's effective interest*	*Held by the Company*	*Held by a subsidiary*	*Principal activity*
深圳万科置业有限公司 (Shenzhen Vanke Property Company Limited)	Shenzhen	RMB 80,000,000	25%	-	25%	Property development
杭州万旭置业有限公司 (Hangzhou Wanxu Property Company Limited)	Hangzhou	RMB 1,822,917,000	30%	-	30%	Property development
杭州万科大家房地产开发有限公司 (Hangzhou Vanke Dajia Real Estate Development Company Limited)	Hangzhou	RMB 2,300,000,000	30%		30%	Property development
成都泰新房地产开发有限公司 (Chengdu Taixin Real Estate Development Company Limited)	Chengdu	RMB 1,450,000,000	40%	-	40%	Property development
苏州中新万科房地产有限公司 (Suzhou Zhongxin Vanke Real Estate Company Limited)	Suzhou	RMB 2,000,000,000	44%	-	44%	Property development
青岛万毅置业有限公司 (Qingdao Wanyi Property Company Limited)	Qingdao	RMB 1,847,968,500	33%	-	33%	Property development
天津和谐家园建设开发有限公司 (Tianjin Hexie Jiayuan Real Estate Company Limited*)	Tianjing	RMB 1,250,000,000	45%	-	45%	Property development

All of the above associates are PRC limited liability companies. The English translation of the names are for reference only. The official names of the companies are in Chinese.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

14 Interest in associates (continued)

Summarised financial information of the material associates, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Hangzhou Vanke Dajia Real Estate Development Company Limited		*Shenzhen Vanke Property Company Limited*		*Suzhou Zhongxin Vanke Real Estate Company Limited*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*
	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
Gross amounts of the associate's						
Current assets	5,140	3,666	44,290	40,972	4,721	2,048
Non-current assets	95	23	4,011	3,201	12	2
Current liabilities	(2,976)	(685)	(38,474)	(38,086)	(2,768)	(56)
Non-current liabilities	-	(730)	(4)	-	-	-
Equity	2,259	2,274	9,823	6,087	1,965	1,994
Revenue	-	-	21,502	13,472	-	-
(Loss)/profit and total comprehensive income that attributable to shareholders for the year	(15)	(18)	3,016	1,810	(29)	(6)
Dividend received from the associate	-	-	(342)	(235)	-	-
Reconciled to the Group's interest in the associate						
Gross amounts of net assets attributable to shareholders of the associate	2,259	2,274	6,042	4,394	1,965	1,994
Group's effective interest	30%	30%	25%	25%	44%	44%
Group's share of net assets of the associate and carrying amount in the consolidated financial statements	677	682	1,511	1,099	864	877
Reconciled to the Group's share of profit/(loss) of the associate						
Profit/(loss) and total comprehensive income/(loss) that attributable to shareholders for the year	(15)	(18)	3,016	1,810	(29)	(6)
Group's effective interest	30%	30%	25%	25%	44%	44%
Group's share of profits less losses of associates	(5)	(5)	754	453	(13)	(3)

14 Interest in associates (continued)

	Tianjin Hexie Jiayuan Real Estate Company Limited		*Qingdao Wanyi Property Company Limited*		*Hangzhou Wanxu Property Company Limited*	
	2016	*2015*	*2016*	*2015*	2016	2015
	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
Gross amounts of the associate's						
Current assets	6,541	-	3,349	-	3,348	2,431
Non-current assets	-	-	14	-	3	-
Current liabilities	(1,539)	-	(1,557)	-	(1,532)	(602)
Non-current liabilities	(2,901)	-	-	-	-	-
Equity	2,101	-	1,806	-	1,819	1,829
Revenue	-	-	-	-	-	-
Profit/(loss) and total comprehensive income that attributable to shareholders for the year	-	-	(42)	-	(10)	6
Dividend received from the associate	-	-	-	-	-	-
Reconciled to the Group's interest in the associate						
Gross amounts of net assets attributable to shareholders of the associate	2,101	-	1,806	-	1,819	1,829
Group's effective interest	45%	-	33%	-	30%	30%
Group's share of net assets of the associate and carrying amount in the consolidated financial statements	945	-	599	-	546	549
Reconciled to the Group's share of profit/(loss) of the associate						
Profit/(loss) and total comprehensive income/(loss) that attributable to shareholders for the year	-	-	(42)	-	(10)	6
Group's effective interest	45%	-	33%	-	30%	30%
Group's share of profits less losses of associates	-	-	(14)	-	(3)	2

14 Interest in associates (continued)

	Chengdu Taixin Real Estate Development Company Limited	
	2016	*2015*
	RMB'million	RMB'million
Gross amounts of the associate's		
Current assets	3,561	2,779
Non-current assets	-	4
Current liabilities	(1,983)	(1,342)
Non-current liabilities	-	-
Equity	1,578	1,441
Revenue	1,028	-
Profit/(loss) and total comprehensive income that attributable to shareholders for the year	137	(9)
Reconciled to the Group's interest in the associate		
Gross amounts of net assets attributable to shareholders of the associate	1,578	1,441
Group's effective interest	40%	40%
Group's share of net assets of the associate and carrying amount in the consolidated financial statements	631	576
Reconciled to the Group's share of profit/(loss) of the associate		
Profit/(loss) and total comprehensive income/(loss) that attributable to shareholders for the year	137	(9)
Group's effective interest	40%	40%
Group's share of profits less losses of associates	55	(4)

Aggregate information of associates that are not individually material:

	2016	*2015*
	RMB'million	RMB'million
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	2,007	1,844
Aggregate amounts of the Group's share of profits less losses of those associates and total comprehensive income for the year	160	26

15 Interest in joint ventures

	2016 RMB'million	*2015* RMB'million
Share of net assets	2,571	1,187

The following list contains only the particulars of material joint ventures, all of which are unlisted corporate entities whose quoted market price is not available and are accounted for using the equity method in the consolidated financial statements.

			Proportion of ownership interest			
Name of Company	*Place of incorporation and operation*	*Particulars of issued/ paid up capital*	*Group's effective interest*	*Held by the Company*	*Held by a subsidiary*	*Principal activity*
Bountiful Time Limited	British Virgin Islands	100 shares	51%	-	51%	Investment holding
杭州锦康置业有限公司 (Hangzhou JinKang Property Company Limited*)	Hangzhou	RMB 200,000,000	40%	-	40%	Property development

Summarised financial information of the material joint ventures, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

15 Interest in joint ventures (continued)

	Bountiful Time Limited		*Hangzhou JinKang Property Company Limited*	
	2016	*2015*	*2016*	*2015*
	RMB'million	RMB'million	RMB'million	RMB'million
Gross amounts of the associate's				
Current assets	2,939	-	4,479	3,392
Non-current assets	576	-	14	9
Current liabilities	(2,172)	-	(3,303)	(2,199)
Equity	1,343	-	1,190	1,202
Included in the above assets and liabilities				
Cash and cash equivalents	7	-	12	16
Revenue	-	-	-	-
Profit and total comprehensive income for the year	31	-	(12)	(18)
Reconciled to the Group's interest in the joint venture				
Gross amounts of net assets of the joint venture	1,343	-	1,190	1,202
Group's effective interest	51%	-	40%	40%
Group's share of net assets of the joint venture and carrying amount in the consolidated financial statements	685	-	476	481
Reconciled to the Group's share of profit of joint venture				
Profit and total comprehensive income for the year	31	-	(12)	(18)
Group's effective interest	51%	-	40%	40%
Group's share of profits less losses of joint venture	16	-	(5)	(7)

15 Interest in joint ventures (continued)

Aggregate information of joint ventures that are not individually material:

	2016 RMB'million	*2015* RMB'million
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	1,410	706
Aggregate amounts of the Group's share of profits less losses of those joint ventures and total comprehensive income for the year	(10)	-

16 Other non-current assets

	2016 RMB'million	*2015* RMB'million
Amounts due from fellow subsidiaries (note (a))	8,444	8,842
Prepayment for leasehold land	2	1
Derivative financial instruments (note (b))	407	101
	8,853	8,944

Note

(a) Amounts due from fellow subsidiaries are unsecured and have no fixed terms of repayment but are not expected to be recovered within one year. Other than amount due from a fellow subsidiary of RMB7,887 million (2015: RMB7,118 million) which bears interest at market rate ranging from 3.07% to 3.33% (2015: from 3.36% to 3.96%), the remaining balance is interest-free.

(b) The amount represented the fair value of foreign exchange deliverable forward contracts ("DF contracts") and interest rate swap contracts ("IRS contracts") entered into by the Group for hedging purpose.

The notional amount of outstanding DF contracts as at 31 December 2016 was RMB6,627 million. The Group uses DF contracts to mitigate the risk of fluctuation in exchange rate.

The effective portion of gains and losses on DF contracts qualifying for hedge accounting as at 31 December 2016 was recognised in the other comprehensive income and calculated separately in equity in hedging reserve.

The fair value of IRS contracts was considered insignificant as at 31 December 2016.

17 Inventories

	2016	*2015*
	RMB'million	RMB'million
Properties held for development	4,565	4,721
Properties under development	21,731	11,502
Completed properties for sale	1,790	1,803
Others	24	7
	28,110	18,033

(a) Included in the inventories are leasehold land with lease terms ranging from 40 to 70 years, which are located in Mainland China.

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2016	*2015*
	RMB'million	RMB'million
Carrying amount of inventories sold	8,317	7,299

The amount of properties held for development and properties under development expected to be recovered after more than one year is RMB11,671 million (2015: RMB8,408 million). All of the other inventories are expected to be recovered within one year.

18 Prepaid tax

	2016	*2015*
	RMB'million	RMB'million
CIT	428	246
LAT	306	226
	734	472

19 Trade and other receivables

	2016 RMB'million	*2015* RMB'million
Trade debtors (note (a))	14	16
Less: allowance for doubtful debts	(1)	(1)
	13	15
Other debtors	5,252	7,319
Amounts due from fellow subsidiaries, associates and joint ventures (note (b))	23,637	12,831
Amount due from the ultimate holding company (note (c))	7,446	4,429
Prepayments	10,787	785
	47,135	25,379

Note

(a) The Group's credit policy is set out in note 27(a). As at 31 December 2016, no significant trade debtors have been past due (2015: RMBNil).

(b) The amounts due from fellow subsidiaries, associates and joint ventures are unsecured, interest-free and repayable on demand.

(c) The amount due from the ultimate holding company is interest-bearing at market rate, unsecured and repayable on demand. As at 31 December 2016, RMB4,771 million (2015: RMB3,762 million) represents the deposit placed in the ultimate holding company's treasury center.

20 Pledged deposits

The balance mainly represents the guarantee deposits in respect of mortgage loans related to property sale. In accordance with relevant construction contracts, certain of the Group's subsidiaries in Mainland China with property development projects are required to place at designated bank accounts with certain amount of deposits for potential default in payment of construction costs payables. Such guarantee deposits will be released after the settlement of the construction costs payables.

21 Cash and cash equivalents

Cash and cash equivalents at the end of the reporting period are cash at bank and on hand.

22 Bank loans

This note provides information about the contractual terms of the Group's bank loans. For more information about the Group's exposure to interest rate risk, please refer to note 27(c).

	2016 RMB'million	*2015* RMB'million
Current		
– Unsecured bank loans	2,442	237
Non-current		
– Unsecured bank loans	2,171	4,296
	4,613	4,533

At 31 December, non-current interest-bearing borrowings were repayable as follows:

	2016 RMB'million	*2015* RMB'million
After 1 year but within 2 years	2,171	2,255
After 2 years but within 5 years	-	2,041
	2,171	4,296

23 Bonds payable

	2016 RMB'million	*2015* RMB'million
Current		
Bonds issued under		
Medium Term Note Programme (note(b))		
- Renminbi bonds	-	998
- Singapore Dollar bonds	674	-
	674	998
Non-current		
United States Dollar Corporate Bonds (note(a))	5,544	5,098
Bonds issued under		
Medium Term Note Programme (note(b))		
– Singapore Dollar bonds	-	641
– Renminbi bonds	998	997
– United States Dollar bonds	8,439	2,566
– Hong Kong Dollar bonds	3,266	-
	18,247	9,302
	18,921	10,300

23 Bonds payable (continued)

Note:

(a) On 13 March 2013, Bestgain Real Estate Limited, a wholly owned subsidiary of the Company issued corporate bonds of USD800 million with a 5-year term and a fixed rate 2.625% per annum payable in arrears semi-annually at issue price of 99.397 per cent. As at 31 December 2015, the United States Dollar Corporate Bonds with principal value of USD6.4 million is held by a fellow subsidiary of the Group.

(b) On 16 July 2013, Bestgain Real Estate Lyra Limited ("Lyra"), a wholly-owned subsidiary of the Company established the Medium Term Note Programme of USD2.0 billion("the Programme") which is listed on the Stock Exchange of Hong Kong. The Program was expanded to USD$3.2 billion on 7 September 2016. The Company and the trustee has agreed to enter into the substitution in the amended and restated trust deed dated 30 December 2016 (the "Amended and Restated Trust Deed"). With effect on and from the date of the Amended and Restated Trust Deed, the new issuer, the Company, substituted the original issuer, Lyra, as the principal issuer of the Programme and any notes which have been or will be issued thereunder, and Lyra is released from its obligations as an issuer under the Programme. And the original guarantor, the Company, is released from its obligations as gurarantor under the Programme. As of 31 December, 2016, the Group has issued 9 notes under the Programme, of which the third issuance has been matured and repaid:

	Drawn down date	*Currency*	*Principal amount*	*Term*	*Interest rate per annum*
1st Drawn Down	6 November 2013	SGD	140,000,000	4 years	3.275%
2nd Drawn Down	4 December 2013	RMB	1,000,000,000	5 years	4.50%
3rd Drawn Down	16 December 2013	RMB	1,000,000,000	3 years	4.05%
4th Drawn Down	4 June 2014	USD	400,000,000	5 years	4.50%
5th Drawn Down	13 April 2016	HKD	1,375,000,000.00	3 years	2.50%
6th Drawn Down	18 April 2016	HKD	625,000,000.00	3 years	2.50%
7th Drawn Down	29 April 2016	HKD	1,650,000,000.00	3 years	2.50%
8th Drawn Down	14 October 2016	USD	220,000,000.00	5 years	2.95%
9th Drawn Down	23 December 2016	USD	600,000,000.00	3 years	3.95%

24 Trade and other payables

	2016 RMB'million	*2015* RMB'million
Trade payables	8,256	6,464
Other payables and accruals	3,957	903
Amounts due to fellow subsidiaries	22,420	11,858
Amount due to the ultimate holding company	4,562	2,159
Amount due to the immediate holding company	7,064	788
Amounts due to associates and joint ventures	1,348	1,017
Receipts in advance	18,280	9,854
	65,887	33,043

The amounts due to fellow subsidiaries, associates and joint ventures are unsecured, interest free and repayable on demand.

The amounts due to the ultimate holding company is interest bearing at market rate, unsecured and repayable on demand.

25 Income tax in the statement of financial position

(a) Current taxation in the statement of financial position represents:

	2016 RMB'million	*2015* RMB'million
CIT and Hong Kong Profit Tax	226	65
LAT	680	356
	906	421

LAT provisions have been made pursuant to Guo Shui Fa (2006) No. 187 Circular of State Administration of Taxation on Relevant Issues of Settlement and Management of Land Appreciation Tax for Real Estate Developers. The Group considers the timing of settlement is dependent on the practice of local tax bureaus. As a result of the uncertainty of timing of payment of LAT, the provisions have been recorded as current liabilities as at 31 December 2016 and 2015.

25 Income tax in the statement of financial position (continued)

(b) Deferred tax assets and liabilities recognized:

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) of the Group recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	*Tax losses* RMB'million	*Bad debt provision and write-down of inventories* RMB'million	*Accruals for construction costs* RMB'million	*Accrual for LAT* RMB'million	*Other temporary differences* RMB'million	*Withholding tax* RMB'million	*Total* RMB'million
At 1 January 2015	72	11	118	95	23	(48)	271
Credited/(charged) to the profit or loss (note 8(a))	40	(7)	4	17	8	(6)	56
At 31 December 2015 and 1 January 2016	112	4	122	112	31	(54)	327
Credited/(charged) to profit or loss (note 8(a))	75	2	(31)	26	4	-	76
At 31 December 2016	187	6	91	138	35	(54)	403

25 Income tax in the statement of financial position (continued)

(ii) Reconciliation to the consolidated statement of financial position

	2016 RMB'million	*2015* RMB'million
Representing:		
Deferred tax assets	457	381
Deferred tax liabilities	(54)	(54)
	403	327

(c) Deferred tax assets not recognised

Deferred tax assets has not been recognised as at 31 December 2016 amounted to RMB21 million (2015: RMBNil) and RMBNil (2015: RMB32 million) in respect of the bad debt provision of a subsidiary and tax losses respectively because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

(d) Deferred tax liabilities not recognised

Pursuant to the Implementation Rules of the Enterprise Income Tax Law, overseas investors of foreign investment enterprises shall be liable for withholding income tax at 10% on the dividend derived from the profits of PRC subsidiaries with effect from 1 January 2008, unless the tax rate is reduced by treaty. Pursuant to the Sino-Hong Kong Double Tax Arrangements, the investor established in Hong Kong which is the beneficiary owner holding not less than 25% of the equity interests of its PRC subsidiaries can enjoy a reduced withholding tax rate of 5% on the dividend received from its PRC subsidiaries. The Group recognised the deferred tax liabilities in relation to the distributable profits expected to be distributed in foreseeable future.

At 31 December 2016, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB3,663 million (2015: RMB3,626 million). Deferred tax liabilities of RMB246 million (2015: RMB181 million) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

26 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'million	*Hedging reserve* RMB'million	*Retained profits/ (accumulated losses)* RMB'million	*Total* RMB'million
Balance at 1 January 2015	17	43	174	234
Changes in equity for 2015				
Issue of new shares	546	-	-	546
Profit and total comprehensive income for the year	-	(33)	54	21
Balance at 31 December 2015 and 1 January 2016	563	10	228	801
Changes in equity for 2016:				
Loss and total comprehensive income for the year	-	200	(239)	(39)
Balance at 31 December 2016	563	210	(11)	762

(b) Dividends

The directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2016 (2015: RMBNil).

(c) Share capital

Issued and fully paid ordinary share

	2016		*2015*	
	No. of shares '000	*RMB'* million	*No. of shares* '000	*RMB'* million
At 1 January	16,286	563	15,600	17
Issue of new shares (note)	-	-	686	546
At 31 December	16,286	563	16,286	563

26 Capital, reserves and dividends (continued)

Note: On 22 July 2015, the Company issued 686,400 ordinary shares with consideration of HKD 1,000 per share to China Vanke Co., Ltd and Shenzhen Vanke Real Estate Co., Ltd in proportion to their shareholdings.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(d) Nature and purpose of reserves

(i) Statutory reserves

Statutory surplus reserve

According to the PRC Company Law, certain PRC established companies comprising the Group are required to transfer 10% of its profit after taxation, as determined under PRC Accounting Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to equity shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

Discretionary surplus reserve

The appropriation to the discretionary surplus reserve is subject to the shareholders' approval. The utilisation of the reserve is similar to that of the statutory surplus reserve.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(u).

(iii) Capital contribution reserve

Capital contribution reserve was mainly resulted from transactions with owners in their capacity as owners.

26 Capital, reserves and dividends (continued)

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of gearing ratio. This ratio is calculated as net debt divided by total equity of the Group. Net debt is calculated as total loans and borrowings less cash and cash equivalents and pledged deposits. The gearing ratio at 31 December 2016 and 2015 is calculated as follows:

	2016 RMB'million	*2015* RMB'million
Loans and borrowings (including bonds payable)	23,534	14,833
Less: Cash and cash equivalents	(9,494)	(2,833)
Pledged deposits	(14)	(35)
Net debt	14,026	11,965
Total equity	16,712	14,901
Gearing ratio	83.93%	80.30%

27 Financial risk management and fair values

Exposure to credit, liquidity, and interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents, pledged deposits, and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Cash and cash equivalents and pledged deposits held by the Group are mainly deposited in financial institutions such as commercial banks which maintain sound reputation and financial situation. The credit risk is considered low. The Group sets deposit limits against the financial institutions' credit risks.

In respect of trade receivables, credit risk is minimised as the Group normally receives full payment from buyers before the transfer of property ownership.

In respect of other receivables due from third parties, the Group reviews the exposures and manages them based on the need of operation.

In respect of amounts due from fellow subsidiaries, associates and joint ventures, the Group facilitates their capital demand by assessing and closely monitoring their financial conditions and profitability.

Except for the financial guarantees given by the Group as set out in note 29, the Group does not provide any other guarantees which would expose the Group to credit risk.

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long terms.

27 Financial risk management and fair values (continued)

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period) and the earliest date the Group can be required to pay:

	2016				
	Carrying amount RMB'million	*Total contractual Undiscounted cash flow* RMB'million	*Within 1 year or on demand* RMB'million	*More than 1 year but less than 2 years* RMB'million	*More than 2 years but less than 5 years* RMB'million
Bank loans	4,613	4,716	2,536	2,180	-
Trade creditors and accruals	12,082	12,085	12,029	56	-
Interest payable	131	131	131	-	-
Amounts due to the immediate holding company, the ultimate holding company and fellow subsidiaries	34,046	34,206	34,206	-	-
Amounts due to associates and joint ventures	1,348	1,348	1,348	-	-
Bonds payable	18,921	20,798	1,307	7,191	12,300
	71,141	73,284	51,557	9,427	12,300

	2015				
	Carrying amount RMB'million	*Total contractual Undiscounted cash flow* RMB'million	*Within 1 year or on demand* RMB'million	*More than 1 year but less than 2 years* RMB'million	*More than 2 years but less than 5 years* RMB'million
Bank loans	4,533	4,617	331	2,275	2,011
Trade creditors and accruals	7,310	7,310	5,924	939	447
Interest payable	57	57	57	-	-
Amounts due to the immediate holding company, the ultimate holding company and fellow subsidiaries	14,805	15,633	15,633	-	-
Amounts due to associates and joint ventures	1,017	1,017	1,017	-	-
Bonds payable	10,300	11,529	1,360	962	9,207
	38,022	40,163	24,322	4,176	11,665

27 Financial risk management and fair values (continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from its cash and bank loan. Cash and bank loan issued at variable rates expose the Group to cash flow interest rate risk. The interest rate and terms of repayment of the Group's borrowings which are exposed to variable interest rate are disclosed in notes 22 and 24 to the consolidated financial statements.

Sensitivity analysis

At 31 December 2016, it is estimated that a general increase/decrease of 50 basis points in interest rates of cash and bank loan of the Group, with all other variables held constant, would have decreased/increased the Group's profit after tax and total equity by approximately RMB14 million (2015: RMB11 million).

In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax and total equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2015.

The sensitivity analysis above assumes that the change in interest rates had occurred at the end of the reporting period and had been applied to all floating rate bank loans, without taking into account the impact of interest capitalisation.

(d) Currency risk

The Group is exposed to foreign currency risk primarily on cash and cash equivalents and bank loans and bonds payable that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily United State Dollars, Hong Kong Dollars and Singapore Dollars.

Cash and cash equivalents denominated in following currencies:

	2016	*2015*
	RMB'million	RMB'million
United States Dollars	140	321
Hong Kong Dollars	1	485
Great Britain Pounds	-	865

27 Financial risk management and fair values (continued)

Bank loans and bonds payable denominated in following currencies are as follows:

	2016 RMB'million	*2015* RMB'million
United States Dollars	16,290	8,243
Hong Kong Dollars	5,573	485
Singapore Dollars	674	641

Trade and other receivables denominated in following currencies are as follows:

	2016 RMB'million	*2015* RMB'million
United States Dollars	7,434	2,798
Hong Kong Dollars	7,887	8,777
Singapore Dollars	282	630
Great Britain Pounds	3	-

Trade and other payables denominated in following currencies are as follows:

	2016 RMB'million	*2015* RMB'million
United States Dollars	35	29
Hong Kong Dollars	-	4,904
Singapore Dollars	8	-
Great Britain Pounds	-	865

Sensitivity analysis

Based on the assumption that Hong Kong Dollars continue to be pegged to United States Dollars, management estimated that should United States Dollars/Hong Kong Dollars be appreciated against Renminbi by 1% (2015: 1%), the Group's profit would be decreased by RMB48 million (2015: decrease by RMB6 million) and the Group's equity would be decreased by approximately RMB65 million (2015: decrease by RMB8 million).

At the same time, management estimated that the fluctuation of Singapore Dollars and Great Britain Pounds against RMB would not have significant impact on the profit and equity of the Group.

The analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and that all other variables remain constant.

27 Financial risk management and fair values (continued)

(e) Fair value

(i) Financial instruments measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS/HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: fair value measured using only level 1 inputs i.e. unadjusted quoted prices in active markets for identical financial instruments.
- Level 2 valuations: fair value measured using level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: fair value measured using significant unobservable inputs.

31 December 2016

	Fair value at 31 December 2016	*Fair value measurements as at 31 December 2016 categorised into*		
		Level 1	*Level 2*	*Level 3*
	RMB'million	RMB'million	RMB'million	RMB'million
Assets				
Derivative financial instruments:				
- IRS contracts	1	-	1	-
- Deliverable forward contracts	406	-	406	-

31 December 2015

	Fair value at 31 December 2015	*Fair value measurements as at 31 December 2015 categorised into*		
		Level 1	*Level 2*	*Level 3*
	RMB'million	RMB'million	RMB'million	RMB'million
Assets				
Non-deliverable forward contracts	101	-	101	-

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amount of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair value as at 31 December 2015 and 2016.

28 Commitments

(a) Capital commitments outstanding at 31 December not provided for in the financial statements were as follows:

	2016 RMB'million	*2015* RMB'million
Construction and development contracts	7,580	3,705
Land agreement	-	420
	7,580	4,125

Commitments mainly related to land and development costs for the Group's properties under development.

(b) At 31 December, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 RMB'million	*2015* RMB'million
Within 1 year	7	3
After 1 year but within 2 years	5	3
After 2 years but within 5 years	2	2
	14	8

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

29 Contingent liabilities

As at the end of the reporting period, the Group has issued guarantees to banks to secure the mortgage arrangement of property buyers. The outstanding guarantees to the banks amounted to RMB5,003 million (2015: RMB2,039 million), which will be terminated upon the completion of the transfer procedures with the buyers in respect of the legal title of the properties.

The directors do not consider it probable that the Group will sustain a loss under these guarantees as the bank has the rights to sell the property and recovers the outstanding loan balance from the sale proceeds if the property buyers default payment. The Group has not recognised any deferred income in respect of these guarantees as its fair value is considered to be minimal by the directors.

30 Material related party transactions

(a) Transactions with key management personnel

All members of key management personnel are directors of the Company, and their remuneration is set out in note 9.

(b) Transactions with other related parties

The outstanding balances arising from transactions with subsidiaries, associates, the ultimate holding company, immediate holding company and fellow subsidiaries are set out in notes 5, 7, 16, 19 and 24.

(c) Financial guarantees issued

As at 31 December 2016, the Group provided certain guarantees to secure the loans borrowed by certain associates and joint ventures. The outstanding guarantees amounted to RMB1,049 million (2015: RMBNil).

The directors do not consider it probable that a claim will be made against the Group under any of these guarantees. Accordingly, the Group did not recognise any deferred income in this respect.

31 Acquisitions of subsidiaries

During the year, the Group has acquired certain subsidiaries which hold property development projects. Acquisitions of these subsidiaries enable the Group to expand its land banks. Acquisitions of major subsidiaries by the Group during the year are summarised as follows:

Date of acquisition	*Name of subsidiaries acquired*	*Percentage of equity interest acquired*	*Consideration RMB'million*
22 September 2016	Shangmo Investment Group Tianjin Industrial Company Limited	100.00%	251
9 September 2016	Macau City (China) Investment Development Company Limited	85.40%	106
1 July 2016	America Champion Property Limited	70.00%	210
11 October 2016	FS Dongguan Investments Holding Limited	55.00%	530
30 September	Sun Sky Asia Limited	85.08%	750

31 Acquisitions of subsidiaries (continued)

The acquisitions of these subsidiaries had the following combined effect on the Group's assets and liabilities upon the dates of acquisitions:

	2016 RMB'million
Current assets	7,623
Non-current assets	3,526
Current liabilities	(8,950)
Non-current liabilities	(6)
Non-controlling interests	(259)
Net assets acquired attributable to the Group	1,934
Total consideration	1,941
Consideration to be paid subsequent to current year	(740)
Consideration paid during the year	1,201
Total cash and cash equivalents acquired	(223)
Net cash outflow	978

The above subsidiaries contributed an aggregate revenue of RMB0 million and net profit attributable to the equity shareholders of the Company of RMB79 million to the Group for the year ended 31 December 2016. Should the acquisitions have occurred on 1 January 2016, the consolidated revenue and the consolidated profit attributable to the equity shareholders of the Company for the year ended 31 December 2016 would have been RMB11,228 million and RMB830 million respectively.

The acquired subsidiaries' major assets are properties held for development, properties under development, completed properties for sale and property, plant and equipment. The directors consider that the purpose of acquiring those subsidiaries is solely to acquire the underlying properties.

32 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016

Except as disclosed in note 2(c), up to date of issue of these financial statements, the IASB/HKICPA has issued a few of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Amendments to IAS/HKAS 12, *Recognition of deferred tax assets for unrealised losses*	1 January 2017
Amendments to IAS/HKAS 7*, Disclosure Initiative*	1 January 2017
IFRS/HKFRS 15, *Revenue from contracts with customers (i)*	1 January 2018
IFRS/HKFRS 9, *Financial instruments (ii)*	1 January 2018
Amendments to IFRS/HKFRS 2, *Classification and Measurement of Share-based Payment Transactions*	1 January 2018
IFRS/HKFRS 16, *Leases (iii)*	1 January 2019
Amendments to IFRS/HKFRS 10 and IAS/HKAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	To be determined

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

32 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016 (continued)

(i) IFRS/HKFRS 15, *Revenue from contracts with customers*

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

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

- revenue from service — the application of IFRS/HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.
- accounting for certain costs incurred in fulfilling a contract — certain costs which are currently expensed may need to be recognised as an asset under IFRS/HKFRS 15, and
- rights of return — IFRS/HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's consolidated financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

IFRS/HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

(ii) IFRS/HKFRS 9, *Financial instruments*

IFRS/HKFRS 9 will replace the current standard on accounting for financial instruments, IAS/HKAS 39, Financial instruments: Recognition and measurement. IFRS/HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS/HKFRS 9 incorporates without substantive changes the requirements of IAS/HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's consolidated financial statements are as follows:

32 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016 (continued)

(a) Classification and measurement

IFRS/HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of IFRS/HKFRS 9.

The classification and measurement requirements for financial liabilities under IFRS/HKFRS 9 are largely unchanged from IAS/HKAS 39, except that IFRS/HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of IFRS/HKFRS 9.

(b) Impairment

The new impairment model in IFRS/HKFRS 9 replaces the "incurred loss" model in IAS/HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12- month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

32 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016 (continued)

(c) Hedge accounting

IFRS/HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under IAS/HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group preliminarily assesses that its current hedge relationships will qualify as continuing hedges upon the adoption of IFRS/HKFRS 9 and therefore it expects that the accounting for its hedging relationships will not be significantly impacted.

(iii) IFRS/HKFRS 16, *Leases*

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

The accounting for lessors will not significantly change. The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS/HKFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other IFRS/HKFRSs that are not yet effective that would be expected to have a material impact on the Group.

33 Ultimate holding company

At 31 December 2016, the directors consider the immediate parent and ultimate controlling party of the Group to be China Vanke Co., Ltd., which is a company domiciled in the PRC and has produced consolidated financial statements available for public use.

34 Company-level statement of financial position at 31 December 2016

	Note	*2016* RMB'million	*2015* RMB'million
Non-current assets			
Investments in subsidiaries	13	22,813	13,355
Interest in associates		123	464
Interest in joint ventures		225	-
Other non-current assets		8,853	8,943
		32,014	22,762
Current assets			
Trade and other receivables		8,011	4,624
Cash and cash equivalents		7,687	1,367
		15,698	5,991
Current liabilities			
Trade and other payables		23,332	12,999
Bonds payable		674	-
		24,006	12,999
Net current liabilities		(8,308)	(7,008)
Non-current liabilities			
Amounts due to subsidiaries		10,241	14,953
Bonds payable		12,703	-
		22,944	14,953
NET ASSETS		762	801
CAPITAL AND RESERVES			
Share capital	26(c)	563	563
Reserves		199	238
TOTAL EQUITY		762	801

Approved and authorised for issue by the board of directors on 28 APR 2017

Que Dongwu
Director

Sun Jia
Director