This announcement is for information purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. Neither this announcement nor anything herein forms the basis for any contract or commitment whatsoever. The securities referred to herein have not been and will not be registered under the Securities Act, and may not be offered or sold in the United States except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Any public offering of securities to be made in the United States will be made by means of a prospectus. Such prospectus will contain detailed information about the company making the offer and its management and financial statements. The Company does not intend to make any public offering of securities in the United States.

天譽置業（控股）有限公司
SKYFAME REALTY (HOLDINGS) LIMITED

(incorporated in Bermuda with limited liability)
(Stock Code: 00059)

OVERSEAS REGULATORY ANNOUNCEMENT

This overseas regulatory announcement is issued by Skyfame Realty (Holdings) Limited (the "**Company**") pursuant to Rule 13.10B of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Please refer to the attached information memorandum in relation to the issuance of US$30,000,000 10.0 per cent. bonds due 2019 by the Company (the "**Information Memorandum**"), which is available on the website of the Singapore Exchange Securities Trading Limited as of 31 August 2018.

The posting of the Information Memorandum on the website of the Stock Exchange is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong and compliance with Rule 13.10B of the Listing Rules, and not for any other purposes.

The Information Memorandum does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it calculated to invite offers by the public to subscribe for or purchase any securities.

The Information Memorandum must not be regarded as an inducement to subscribe for or purchase any securities of the Company, and no such inducement is intended. No investment decision should be based on the information contained in the Information Memorandum.

By Order of the Board
Skyfame Realty (Holdings) Limited
YU Pan
Chairman

Hong Kong, 31 August 2018

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. YU Pan (Chairman), Mr. WEN Xiaobing and Mr. WONG Lok; one non-executive Director, namely Mr. LI Weijing and three independent non-executive Directors, namely Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong.

STRICTLY CONFIDENTIAL — DO NOT FORWARD

THIS INFORMATION MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL TO, OR A SOLICITATION OF AN OFFER TO BUY FROM, ANY PERSON IN ANY JURISDICTION TO WHOM IT IS UNLAWFUL TO DO SO.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the information memorandum attached to this e-mail, you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached information memorandum. In accessing the attached information memorandum, you agree to be bound by the following terms and conditions including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: You have accessed the attached document on the basis that you have confirmed your representation to Skyfame Realty (Holdings) Limited (1) that you are outside the United States and to the extent you purchase the securities described in the attached information memorandum, you will be doing so pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act"), AND (2) that you consent to delivery of the attached information memorandum and any amendments or supplements thereto by electronic transmission.

The following information memorandum is not a prospectus for the purposes of the European Union's Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) as implemented in the Member States of the European Economic Area (the "EEA"). The attached document has been prepared on the basis that all offers of the securities made to persons in the European Economic Area will be made pursuant to an exemption under the EU Prospectus Directive from the requirement to produce a prospectus in connection with offers of the securities.

Prohibition of Sales to EEA Retail Investors – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended ("MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC (the Insurance Mediation Directive), as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the "PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

Within the United Kingdom, the communication of the following information memorandum and any other document or materials relating to the issue of the Bonds (as defined therein) offered hereby is not being made, and such documents and/or materials have not been approved, by an authorised person for the purposes of section 21 of the United Kingdom's Financial Services and Markets Act 2000, as amended ("FSMA"). Accordingly, such documents and/or materials are not being distributed to, and must not be passed on to, the general public in the United Kingdom. The communication of such documents and/or materials as a financial promotion is only being made to those persons in the United Kingdom falling within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Financial Promotion Order")), or within Article 49(2)(a) to (d) of the Financial Promotion Order, or to any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as "Relevant Persons"). In the United Kingdom, the Bonds offered hereby are only available to, and any investment or investment activity to which this document relates will be engaged in only with, Relevant Persons. Any person that is not a Relevant Person should not act or rely on the following information memorandum or any of its contents.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently no person or any person who controls it or any of its directors, employees representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

Nothing in this electronic transmission constitutes an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction where it is unlawful to do so. The securities referred to in the attached document have not been and will not be registered under the Securities Act or under any securities laws of any state or other jurisdiction of the United States, and may not be offered, sold, resold, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. You are reminded that you have accessed the attached information memorandum on the basis that you are a person into whose possession this information memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

Actions That You May Not Take: You should not reply by e-mail to this electric transmission, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

YOU ACKNOWLEDGE THAT THE ATTACHED DOCUMENT AND THE INFORMATION CONTAINED THEREIN ARE STRICTLY CONFIDENTIAL AND INTENDED FOR YOU ONLY. YOU ARE NOT AUTHORIZED AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED INFORMATION MEMORANDUM, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH INFORMATION MEMORANDUM IN ANY MANNER WHATSOEVER. ANY FORWARDING DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT AND THE ATTACHED INFORMATION MEMORANDUM, IN WHOLE OR IN PART, IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are responsible for protecting against viruses and other items of a destructive nature. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

INFORMATION MEMORANDUM **CONFIDENTIAL**

天譽置業（控股）有限公司
SKYFAME REALTY (HOLDINGS) LIMITED

(incorporated in Bermuda with limited liability)
(Stock Code: 00059)

US$30,000,000

10.0 PER CENT. BONDS DUE 2019
Issue Price: 100 PER CENT.

Skyfame Realty (Holdings) Limited (the "Issuer") is issuing 10.0 per cent. Bonds due 2019 in the aggregate principal amount of US$30,000,000 (the "Bonds"). The Bonds will bear interest at the rate of 10.0 per cent. per annum and mature on 28 August 2019. Interest on the Bonds will be payable in arrears on 28 February 2019 and 28 August 2019.

Unless previously redeemed, or purchased or cancelled, the Bonds will be redeemed at their principal amount on 28 August 2019. We may redeem all, but not less than all, of the Bonds at a price equal to their principal amount plus accrued and unpaid interest upon certain changes in the tax laws of certain jurisdiction. Upon the occurrence of a Change of Control (as defined herein), we must make an offer to repurchase all Bonds outstanding at a purchase price equal to 101 per cent. of their principal amount, plus accrued and unpaid interest, if any, to (but excluding) the date of repurchase.

The Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and shall at all times rank pari passu and without any preference among themselves. The payment obligations of the Company under the Bonds shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all its other present and future direct, unconditional, unsecured and unsubordinated obligations.

For a more detailed description of the Bonds, see "Terms and Conditions of the Bonds" beginning on page 106.

Investing in the Bonds involves risks. See "Risk Factors" beginning on page 13.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "SGX-ST") for the listing and quotation of the Bonds on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of the Bonds on, the SGX-ST are not to be taken as an indication of the merits of the Issuer, the subsidiaries or associated companies of the Issuer, or the Bonds.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Bonds are being offered and sold only outside the United States in compliance with Regulation S under the Securities Act ("Regulation S"). For a description of certain restrictions on the resale or transfer of the Bonds, see "Transfer Restrictions."

It is expected that the delivery of the Bonds will be made on or about 30 August 2018 through the book-entry facilities of Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream") against payment therefor in immediately available funds.

Placing Agents

Haitong International **Morton Securities Limited**

The date of this information memorandum is 20 August 2018

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This information memorandum does not purport to nor does it contain all information that a prospective investor may require in investigating us, prior to making an investment in relation to the Bonds. This information memorandum is not, and does not purport to be, investment advice. A prospective investor should make an investment in the Bonds only after it has determined that such investment is suitable for its investment objectives. Determining whether an investment in the Bonds is suitable is a prospective investor's responsibility. Neither this information memorandum nor any other document or information (or any part thereof) delivered or supplied under or in relation to the Bonds (or any part thereof) is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by us that any recipient of this information memorandum or any such other document or information (or any part thereof) should subscribe for or purchase or sell any of the Bonds. Each person receiving this information memorandum acknowledges that such person has not relied on us or our subsidiaries and associated companies (if any) or any person affiliated with each of them in connection with its investigation of the accuracy or completeness of the information contained herein or of any additional information considered by it to be necessary in connection with its investment decision. Any recipient of this information memorandum contemplating subscribing for or purchasing any of the Bonds should determine for itself the relevance of the information contained in this information memorandum and any such other document or information (or such part thereof) and its investment should be, and shall be deemed to be, based solely upon its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of us and our subsidiaries and associated companies (if any), the terms and conditions of the Bonds and any other factors relevant to its decision, including the merits and risks involved. A prospective investor should consult with its legal, tax and financial advisers prior to deciding to make an investment in the Bonds.

This information memorandum does not constitute an offer to sell to, or a solicitation of an offer to buy from, any person in any jurisdiction to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this information memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this information memorandum or that the information contained in this information memorandum is correct as of any time after that date.

This information memorandum is not a prospectus for the purposes of the European Union's Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) as implemented in the Member States of the European Economic Area (the "EEA"). This information memorandum has been prepared on the basis that all offers of the Bonds made to persons in the European Economic Area will be made pursuant to an exemption under the EU Prospectus Directive from the requirement to produce a prospectus in connection with issuance of the Bonds.

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Within the United Kingdom, the communication of this information memorandum and any other document or materials relating to the issue of the Bonds offered hereby is not being made, and such documents and/or materials have not been approved, by an authorised person for the purposes of section 21 of the United Kingdom's Financial Services and Markets Act 2000, as amended ("FSMA"). Accordingly, such documents and/or materials are not being distributed to, and must not be passed on to, the general public in the United Kingdom. The communication of such documents and/or materials as a financial promotion is only being made to those persons in the United Kingdom falling within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Financial Promotion Order")), or within Article 49(2)(a) to (d) of the Financial Promotion Order, or to any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as "Relevant Persons"). In the United Kingdom, the Bonds offered hereby are only available to, and any investment or investment activity to which this document relates will be engaged in only with, Relevant Persons. Any person that is not a Relevant Person should not act or rely on this information memorandum or any of its contents.

This information memorandum is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Bonds. You should read this information memorandum before making a decision whether to purchase the Bonds. You must not use this information memorandum for any other purpose, or disclose any information in this information memorandum to any other person.

We have prepared this information memorandum, and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Bonds. By purchasing the Bonds, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section headed “Transfer Restrictions” below.

No representation or warranty, express or implied, is made by Haitong International Securities Company Limited and Morton Securities Limited (each a “Placing Agent” and together, the “Placing Agents”), Citicorp International Limited (the “Trustee”), the Agents (as defined in the Terms and Conditions of the Bonds) or any of their respective directors, officers, employees, affiliates or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this information memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or the future.

Each person receiving this information memorandum acknowledges that: (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the Placing Agents, Trustee or any person affiliated with the Placing Agents, the Trustee in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates, the Bonds (other than as contained herein and information given by our duly authorized officers and employees in connection with investors' examination of our company and the terms of the Bonds) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us, Placing Agents or the Trustee.

THE BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER UNITED STATES REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE ISSUANCE OF THE BONDS OR THE ACCURACY OR ADEQUACY OF THIS INFORMATION MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

We are not making an offer to sell the Bonds in any jurisdiction except where an offer or sale is permitted. The distribution of this information memorandum and the issuance of the Bonds may in certain jurisdictions be restricted by law. Persons into whose possession this information memorandum comes are required by us to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Bonds and distribution of this information memorandum, see “Transfer Restrictions” below.

This information memorandum summarizes certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this information memorandum. In making an investment decision, you must rely on your own examination of us and the terms of the issuance, including the merits and risks involved. None of the Company, the Trustee, the Agents or our or their respective directors, officers or advisors is making any representation to you regarding the legality of an investment in the Bonds by you under any legal, investment or similar laws or regulations. You should not consider any information in this information memorandum to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the Bonds.

We reserve the right to withdraw the issuance of the Bonds at any time.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY AND FINANCIAL INFORMATION PRESENTATION

We have prepared this information memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms the "Company," the "Group," "we," "us," "our" and words of similar import, we are referring to Skyfame Realty (Holdings) Limited itself or to Skyfame Realty (Holdings) Limited and its consolidated subsidiaries, as the context requires.

Market data and certain industry forecasts and statistics in this information memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although we believe this information to be reliable, it has not been independently verified by us or our directors and advisors, and neither we nor our directors, officers, employees and advisors makes any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified.

The information and statistics set forth in this information memorandum relating to the PRC and the retail industry in the PRC were taken or derived from various government and private publications. Due to possibly inconsistent collection methods and other problems, the information and statistics herein may be inaccurate and should not be unduly relied upon.

We record and publish our financial statements in Renminbi. Unless otherwise stated in this information memorandum, all translations from Renminbi amounts to U.S. dollars were made at the rate of RMB6.5063 to US$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 29, 2017, and all translations from Hong Kong dollars into U.S. dollars were made at the rate of HK$7.8128 to US$1.00, the noon buying rate in New York City for cable transfers payable in H.K. dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 29, 2017. All such translations in this information memorandum are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars and Hong Kong dollars, or vice versa, at any particular rate or at all. For further information relating to the exchange rates, see "Exchange Rate Information."

In this information memorandum, references to "US$" and "U.S. dollars" are to United States dollars, the official currency of the United States of America (the "United States" or "U.S."); references to "HK$" and "H.K. dollars" are to Hong Kong dollars, the official currency of the Hong Kong Special Administrative Region of the PRC ("Hong Kong" or "HK"), references to "RMB" or "Renminbi" are to Renminbi, the official currency of the People's Republic of China; references to "Macau" are to the Macau Special Administrative Region of the PRC; references to the "PRC government" are to the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or, where the context requires, any of them; and references to the "PRC" and "China" are to the People's Republic of China and, for the purposes of this information memorandum, do not include Hong Kong, Macau or Taiwan.

Our financial statements are prepared in accordance with Hong Kong Financial Reporting Standards (the "HKICPA") which differ in certain respects from generally accepted accounting principles in certain other countries.

Unless the context otherwise requires, references to "2015", "2016" and "2017" in this information memorandum means our financial years ended December 31, 2015, 2016 and 2017, respectively.

"Board of Directors" or "Board" means the board of Directors of the Company.

"CAGR" means compound annual growth rate.

"Controlling shareholder" has the meaning ascribed to it in the Listing Rules (as defined above).

"Director(s)" mean the director(s) of the Company.

"EIT Law" means the Enterprise Income Tax Law of the PRC, which came into effect on January 1, 2008.

"Greater Bay Area" refers to the a city cluster consisting nine cities in Guangdong Province, namely Guangzhou, Shenzhen, Zhuhai, Foshan, Zhongshan, Dongguan, Huizhou, Jiangmen and Zhaoqing, as well as two special administrative regions, Hong Kong and Macau.

"Huaihai Economic Zone" refers to the area covering southern Shandong Province, northern Jiangsu Province, northern Anhui Province and part of Henan Province.

"MTB Programmes" mean Apastron MTB Programme and Anglo MTB Programme. See "Description of Other Material Indebtedness – Offshore Financing Agreements" for more details.

"SAFE" means the PRC State Administration of Foreign Exchange (中國國家外匯管理局), the PRC government agency responsible for matters relating to foreign exchange administration.

"SFO" means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time.

"Share" means, unless the context indicates otherwise, an ordinary share, with a nominal value of HK$0.01, in our share capital.

"sq.m." means square meters(s).

"Southwestern Region" refers to the area covering Sichuan Province, Guizhou Province, Yunnan Province, Chongqing Municipality and Guangxi Zhuang Autonomous Region.

In this information memorandum, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

FORWARD-LOOKING STATEMENTS

This information memorandum includes "forward-looking statements" that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include statements relating to:

- our business, financing and operating strategies;
- our capital expenditure and expansion plans;
- the amount and nature of, and potential for, future development of our business;
- our operations and business prospects;
- various business opportunities that we may pursue;
- any prospective financial information regarding our businesses;
- availability and costs of bank loans and other forms of financing;
- our dividend policy;
- the regulatory environment of our industry in general;
- changes in political, economic, legal and social conditions in China, including the specific policies of the PRC central and local governments affecting the markets where we operate;
- changes in competitive conditions and our ability to compete under these conditions;
- changes in currency exchange rates;
- effect of competition on the demand for and prices of the products we offer and our ability to compete; and
- other factors beyond our control.

In some cases, you can identify forward-looking statements by such terminology as "believe," "expect," "aim," "intend," "will," "may," "anticipate," "seek," "should," "estimate" or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors" and elsewhere in this information memorandum. We caution you not to place undue reliance on these forward-looking statements which reflect our management's view only as of the date of this information memorandum. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this information memorandum might not occur.

SUMMARY

This summary does not contain all the information that may be important to you in deciding to invest in the Bonds. You should read the entire information memorandum, including the section entitled "Risk Factors" and our consolidated financial information and related notes thereto, before making an investment decision.

OVERVIEW

We are a real estate developer focusing on high-end commercial and residential properties in China and specializing in the development of properties for young communities. We are headquartered in Guangzhou, Guangdong province, China and have property development projects in a number of cities in the Greater Bay Area, the Southwestern Region and Huaihai Economic Zone of China, covering Shenzhen, Guangzhou, Zhongshan, Nanning, Chongqing and Xuzhou. We have three business segments, namely, property development, property investment and property management. In recent years, we have primarily been developing sizable development projects to suit the needs of young buyers who seek to live in relatively small-size but convenient homes. We have developed tailor-made facilities to satisfy the needs of young population in their daily living, leisure, recreational, medical care and startup business development in the premises built by us. We were ranked 177th and 192nd nation-wide among the "2017 China Real Estate Enterprises Top 200" in terms of contracted sales area and amount, respectively, published by the CRIC Research Center.

As of December 31, 2017, we had a total of 13 property projects at various stages of development (including completed projects, projects under development and projects held for future development), which were located in seven cities with a total site area of approximately 1,205,000 sq.m. and an aggregate actual/planned GFA of approximately 5,700,000 sq.m. As of the same date, we had a land bank of approximately 4,223,000 sq.m. of GFA, consisting of approximately 394,000 sq.m. of GFA available for sale of completed properties, approximately 2,554,000 sq.m. of planned GFA under development and 1,275,000 sq.m. of estimated GFA held for future development. As of December 31, 2017, we delivered completed saleable GFA of approximately 1,265,000 sq.m. to our customers.

We have received a number of awards and recognitions for our property projects and business operations. In 2017, our Nanning Skyfame City project was ranked 90th among the "2017 Real Estate Project Top 100 by Contracted Sales Amount" published by CRIC Research Center. In the same year, we received the awards of "2017 Guangxi International Real Estate Brand – Skyfame Realty" from Nanning Evening News and Guangxi Radio FM950. Our Nanning Skyfame City project won the "2017 Guangxi Real Estate Energy Awards – Super High Rise City of Quality Metropolis" from Nanning Evening News and Guangxi Radio FM950, "2017 Most Popular Property of the Friends of Residence Award" from Guangxi Real Estate Festival Committee and Friends of Residence Network, "Guangxi Golden Brick Award – 2017 Regional Model Property" from Guangxi Daily Media Group, Southern Morning Post and Home Weekly and "Regional Signature Property Headline Award" from Headline Daily. Our project company, Nanning Tianyu Jucheng Realty Company Limited, won the "Guangxi Golden Brick Award – 2017 Guangxi Real Estate City Motivating and Contributing Award" by Guangxi Daily Media Group, Southern Morning Post and Home Weekly. Our Guangzhou Skyfame Byland Project received the award of "2017 China Real Estate Championship – the Ultimate City Benchmarking Luxurious Residence" by Netease Real Estate, Guangdong Real Estate Chamber of Commerce and China Real Estate

Championship Judging Committee. Our "Community of Mr. Fish" of Xuzhou Skyfame Time City Project won the "2017 Xuzhou Most Influential Property Award" from Fang.com and was also recognized as the "Best Selling Property" by Xuzhou Station of Tencent Real Property. In 2016, we were recognized as one of the "Top 20 All-Around Property Developers in Guangxi" and "Top Five Fast Growing Property Developers in Guangxi" for the 2016 Guangxi Top 50 Real Estate Property Award by CRIC China Real Estate, Guangxi Science and Education Channel and Guangxi Radio FM930. We also received the four-star property service project award for our Tianyu-Huafu Property Management Project in 2016 and our Guangzhou Skyfame Byland Project was recognized as a "China Real Estate and Home Design Championship for Luxurious Housing" in 2016 from Netease Home and Guangdong Real Estate Committee.

In 2015, 2016 and 2017, our revenue was RMB306.3 million, RMB1,508.0 million and RMB4,080.5 million (US$627.2 million), respectively. We recorded loss attributable to owners of RMB211.8 million in 2015, and we recorded profit attributable to owners of RMB92.9 million and RMB550.5 million (US$84.6 million), in 2016 and 2017, respectively.

COMPETITIVE STRENGTHS

We believe the following strengths differentiate us from other industry participants and have enabled us to compete effectively in our industry:

- we have property development portfolio strategically located across some of the high growth regions or cities in China;
- we specialize in project developments of sizable scale catering for young population;
- we have recognized brand name with quality products; and
- we have an experienced management team and strong risk management capabilities.

BUSINESS STRATEGIES

We plan to expand our business operations by focusing on the development of youth communities and developing properties that serve the needs of the young population of our country.

We intend to implement the following business strategies:

- continue to expand in the fast-growing economic regions or cities in China;
- continue our development of youth community projects; and
- continue to promote our brand names.

RECENT DEVELOPMENTS

Interim Results Announcement

The interim results announcement (the "Interim Results Announcement") of the Company for the six months ended June 30, 2018 is expected to be released on or about August 29, 2018, which shall be deemed to be incorporated into and form part of this information memorandum.

Acquisition of Chongqing Project

Chongqing Project has a total GFA of 1,179,000 sq.m., including residential properties and serviced apartments of 717,000 sq.m., offices and retail units of 124,000 sq.m., car-parking spaces of 321,000 sq.m. and municipal and other facilities of 16,000 sq.m. Chongqing Project is held by Chongqing Hesheng Real Estate Development Company Limited (重慶核盛房地產開發有限公司) ("CQ Hesheng Real Estate") and is expected to complete in 2021. On January 7, 2018, our wholly-owned subsidiary, Guangzhou Chuangfu Realty Company Limited (廣州創富置業有限公司) ("GZ Chuangfu"), entered into an equity transfer agreement (the "CQ Shengdiya Agreement") with Chongqing Shengdiya Property (Group) Company Limited (重慶盛迪亞產業(集團)有限公司) ("CQ Shengdiya"), pursuant to which we shall acquire 20% equity interest of CQ Hesheng Real Estate at a consideration of RMB0.16 billion. As of the date of this information memorandum, the transfer of 12% equity interest in CQ Hesheng Real Estate held by CQ Shengdiya has been completed. The remaining 8% equity interest of CQ Hesheng Real Estate held by CQ Shengdiya is yet to be transferred. On January 25, 2018, GZ Chuangfu entered into a framework agreement with Zhonghe Real Estate Development Company Limited (中核房地產開發有限公司) ("ZH Real Estate"), pursuant to which GZ Chuangfu shall acquire the remaining 80% equity interest of CQ Hesheng Real Estate at an estimated consideration of approximately RMB4.68 billion, conditional upon the successful bidding of the 80% equity interest in the listing-for-sale process. On March 13, 2018, following the successful bidding of 79% equity interest of CQ Hesheng Real Estate, GZ Chuangfu and ZH Real Estate entered into a definitive equity transfer agreement for such equity interest. As of the date of this information memorandum, the transfers of 79% equity interest in CQ Hesheng Real Estate held by ZH Real Estate has been completed. The remaining 1% equity interest of CQ Hesheng Real Estate held by ZH Real Estate is yet to be listed for sale.

Apastron MTB Programme

On February 28, 2018, we increased the size of the Apastron MTB Programme from HK$1.5 billion to HK$2.5 billion. Since December 31, 2017 up to the date of this information memorandum, a total principal amount of HK$0.66 billion (US$0.08 million) of the Apastron Medium Term Bonds has been issued and are outstanding. We may no longer take down under the Apastron MTB Programme as the issuance period of the programme expired on June 16, 2018. See "Description of Other Material Indebtedness – Offshore Financing Agreements – Apastron MTB Programme" for more details.

January 2021 Bonds

On January 10, 2018, we executed a bonds instrument (the "January 2021 Bonds Instrument") pursuant to which we may issue fixed coupon unsecured and unsubordinated bonds in the principal amount of up to HK$300.0 million (US$38.4 million) due on the day immediately preceding the third anniversary of the issue date of the bonds (the "January 2021 Bonds"). As of the date of this information memorandum, an aggreate principal amount of HK$172.8 million (US$22.1 million) of the January 2021 Bonds has been issued and remains outstanding. See "Description of Other Material Indebtedness – January 2021 Bonds" for more details.

GENERAL INFORMATION

Our Company was incorporated in Bermuda on October 19, 1993 as an exempted company with limited liability under the laws of Bermuda. Our shares have been listed on The Stock Exchange of Hong Kong Limited since November 1993, under the stock code 0059. Our registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. Our head office and principal place of business in the PRC is 32nd to 33rd Floors of HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC. Our principal place of business in Hong Kong is at Unit 1401, 14th floor, Capital Centre, 151 Gloucester Road, Wanchai, Hong Kong. Our website is www.tianyudc.com. Information contained on our website does not constitute a part of this information memorandum.

THE ISSUANCE

The following is a brief summary of the issuance and is qualified in its entirety by the remainder of this information memorandum. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in "Terms and Conditions of the Bonds" shall have the same meanings in this summary. For a more complete description of the terms and conditions of the Bonds, see "Terms and Conditions of the Bonds" in this information memorandum.

Issuer	Skyfame Realty (Holdings) Limited.
Issue	US$30,000,000 in aggregate principal amount of 10.0 per cent. Bonds due 2019.
Issue Price.	100 per cent.
Form and Denomination	The Bonds will be issued in registered form in the denomination of US$200,000 each and integral multiples of US$1,000 in excess thereof.
Interest	The Bonds will bear interest from and including 30 August, 2018 at the rate of 10.0 per cent. per annum, payable in arrears on 28 February 2019 and 28 August 2019, commencing on 28 February 2019.
Issue Date	30 August 2018
Maturity Date	28 August 2019
Status of the Bonds	The Bonds will constitute direct, unsubordinated, unconditional and unsecured obligations of the Issuer and shall at all times rank pari passu and without any preference among themselves, and shall at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such exceptions as may be provided by applicable legislation.
Certain Covenants	The Trust Deed constituting the Bonds and the Conditions related thereto will, among other things, restrict the ability of the Issuer and its Restricted Subsidiaries (as defined in the Terms and Conditions of the Bonds) to: • incur additional indebtedness and issue preferred stock; • make restricted payments; • enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends and transfer assets or make inter-company loans;

- issue or sell capital stock of Restricted Subsidiaries;
- guarantee any indebtedness of the Issuer
- enter into transactions with shareholders or affiliates;
- create liens;
- enter into sale and leaseback transactions;
- sell assets;
- effect a consolidation or merger; or
- engage in different business activities.

Each of the covenants is subject to significant exceptions and qualifications. See the Terms and Conditions of the Bonds.

Events of Default	The Bonds contain certain events of default provisions as further described in Condition 9 of the Terms and Conditions of the Bonds.
Taxation	All payments of principal of, and premium (if any) and interest on the Bonds will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any Relevant Jurisdiction or Taxing Jurisdiction (as defined in Condition 8), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Issuer or a Surviving Person (as defined in Condition 4(j)(1)), as the case may be, will pay such Additional Amounts as will result in receipt by the Holder of each Bond of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts (as defined in Condition 8) shall be payable under the provisions as further described in Condition 8 of the Terms and Conditions of the Bonds.
Final Redemption	Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Maturity Date.

Redemption for Tax Reasons	The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 16 (which shall be irrevocable) and in writing to the Trustee and the Principal Paying Agent, at their principal amount (together with any interest accrued to the date fixed for redemption) if (i) the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of Bermuda, the PRC or any political subdivision or any authority thereof or therein having power to tax or any jurisdiction through which payments are made, or any change in the application or official interpretation of, or the stating of an official position with respect to, such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), which change or amendment becomes effective on or after the Issue Date, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no Tax Redemption Notice (as defined in Condition 6(b)) shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Bonds then due, as further described in Condition 6(b) of the Terms and Conditions of the Bonds.
Redemption for Change of Control	Following the occurrence of a Change of Control (as defined in Condition 6(c)), a Holder will have the right at such Holder's option, to require the Issuer to redeem all, but not some only, of such Holder's Bonds on the Put Settlement Date (as defined in Condition 6(c)) at 101 per cent. of their principal amount, together with accrued but unpaid interest up to (but excluding) the Put Settlement Date, as further described in Condition 6(c) of the Terms and Conditions of the Bonds.
Clearing Systems	The Bonds will be issued in registered form and represented initially by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and deposited with, a common depositary for Euroclear and Clearstream. Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described in the Global Certificate, certificates for the Bonds will not be issued in exchange for beneficial interests in the Global Certificate.

Clearance and Settlement	The Bonds have been accepted for clearance by Euroclear and Clearstream under the International Securities Identification Number ("ISIN") of XS1855419161 and the Common Code of 185541916.
Governing Law	English law
Trustee	Citicorp International Limited
Registrar, Transfer Agent and Principal Paying Agent	Citibank, N.A., London Branch
Listing.	Approval in-principle has been received from the SGX-ST for the listing and quotation of the Bonds on the SGX-ST. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Bonds, if traded on the SGX-ST, will be traded in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies). Accordingly, the Bonds, if traded on the SGX-ST, will be traded in a minimum board lot size of US$200,000.
Further Issues	The Issuer may from time to time without the consent of the Holders to create and issue further securities having the same terms and conditions as the Bonds in all material respects (or in all material respects save for the issue date, the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) and so that the same shall be consolidated and form a single series with the outstanding Bonds. Any further securities shall be constituted by a deed supplemental to the Trust Deed.
Use of Proceeds	We plan to use the gross proceeds for repayment of existing loans and working capital purposes.
Risk Factors	For a discussion of certain risk factors that should be considered in evaluating an investment in the Bonds, see "Risk Factors".

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary financial and other data. The summary consolidated statement of profit or loss data for 2015, 2016 and 2017 and the summary consolidated statement of financial position data as of December 31, 2015, 2016 and 2017 set forth below (except for EBITDA data) have been derived from our consolidated financial statements for such years and as of such dates, as audited by BDO Limited, Certified Public Accountants, the independent certified public accountants, and included elsewhere in this information memorandum. Our financial statements for the years of 2015, 2016 and 2017 have been prepared and presented in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The summary financial data below should be read in conjunction with our consolidated financial statements and the notes to those statements, included elsewhere in this information memorandum.

SUMMARY CONSOLIDATED PROFIT OR LOSS AND OTHER FINANCIAL DATA

	For the year ended December 31,			
	2015	2016	2017	
	RMB	RMB	RMB	US$ (Unaudited)
	(in thousands, except for percentages)			
Revenue	306,321	1,507,971	4,080,514	627,164
Cost of sales and services	(272,393)	(1,196,640)	(3,197,387)	(491,429)
Gross profit	33,928	311,331	883,127	135,734
Other income and gains, net	1,402	4,048	34,100	5,241
Sales and marketing expenses	(46,000)	(106,971)	(152,913)	(23,502)
Administrative and other expenses	(137,516)	(163,597)	(219,828)	(33,787)
Unrealised exchange (loss)/gain	(69,026)	(97,231)	111,909	17,200
Fair value changes in investment properties	6,736	10,051	35,701	5,487
Write-down of properties under development/properties held for sale	(20,024)	–	–	–
Gain on properties valuation	–	–	353,351	54,309
Fair value changes in derivative financial asset/liabilities	2,632	11,121	13,080	2,010
Loss on early repayment of term loans	–	–	(23,418)	(3,599)
Gain on disposal of subsidiaries, net of tax	–	97,285	–	–
Finance costs	(1,813)	(3,051)	(33,088)	(5,086)
Finance income	21,198	32,771	36,483	5,607
Profit/(loss) before income tax	(208,483)	95,757	1,038,504	159,615
Income tax expense	(23,781)	(9,518)	(491,232)	(75,501)
Profit/(loss) for the year	(232,264)	86,239	547,272	84,114
OTHER FINANCIAL DATA (UNAUDITED)				
EBITDA[1]	(220,743)	61,864	673,135	103,459
EBITDA Margin (%)[2]	N/A	4%	16%	16%

Notes:

(1) EBITDA is not a standard measure under HKICPA. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit attributable to shareholders or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, net finance costs and depreciation and amortization. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as revenue and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA herein because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Terms and Conditions of the Bonds. See condition 19 of the "Terms and Conditions of the Bonds" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Terms and Conditions of the Bonds.

The following table reconciles our profit for the year under HKFRS to our definition of EBITDA for the periods indicated:

	For the Year Ended December 31,			
	2015	**2016**	**2017**	
	(RMB)	*(RMB)*	*(RMB)*	*(US$)*
		(in thousands)		(unaudited)
(Loss)/profit before income tax	(208,483)	95,757	1,038,504	159,615
Adjustments:				
Fair value changes in investment properties	(6,736)	(10,051)	(35,701)	(5,487)
Gains on properties valuation	–	–	(353,351)	(54,309)
Fair value changes in derivative financial asset/liabilities	(2,632)	(11,121)	(13,080)	(2,010)
Loss on early repayment of term loans	–	–	23,418	3,599
Finance costs, net	(19,385)	(29,720)	(3,395)	(521)
Depreciation and amortisation	16,493	16,999	16,740	2,572
EBITDA	(220,743)	61,864	673,135	103,459
EBITDA Margin (%)	N/A	4%	16%	16%

(2) EBITDA margin is calculated by dividing EBITDA by revenue.

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of December 31,			
	2015	2016	2017	
	RMB	RMB	RMB	US$
				(Unaudited)
	(in thousands)			
Non-current assets				
Property, plant and equipment	262,725	251,390	239,497	36,810
Investment properties	570,058	588,370	1,094,400	168,206
Goodwill	13,554	13,554	13,554	2,083
Available-for-sale investment	–	10,000	10,000	1,537
Loan to a non-controlling shareholder of a subsidiary	–	–	52,900	8,131
Derivative financial asset	37	9,022	46,144	7,092
Deferred tax assets	–	57,353	18,142	2,789
	846,374	929,689	1,474,637	226,648
Current assets				
Properties held for development	–	161,160	488,072	75,015
Properties under development	6,159,277	7,971,027	3,552,378	545,991
Properties under Tianhe Project	786,168	–	–	–
Properties held for sale	177,850	177,228	3,754,243	577,017
Considerations receivable	105,000	277,401	–	–
Loan to a non-controlling shareholder of a subsidiary	20,400	52,900	–	–
Trade and other receivables	495,974	862,037	1,200,792	184,557
Prepayment/deposits for proposed projects	–	614,093	1,385,269	212,912
Short-term investments	460,000	–	100,000	15,370
Prepaid income tax	–	93,368	–	–
Restricted and pledged deposits	922,729	987,290	1,313,264	201,845
Cash and cash equivalents	383,255	1,794,440	2,983,799	458,602
	9,510,653	12,990,944	14,777,817	2,271,309
Current liabilities				
Trade and other payables	1,200,733	1,190,525	1,374,346	211,233
Properties pre-sale deposits	3,710,375	7,290,196	7,821,274	1,202,108
Bank and other borrowings – current portion	2,013,166	1,067,634	1,171,198	180,010
Derivative financial liabilities – current portion	–	11,177	–	–
Consideration from disposal of Tianhe Project – current portion	990,360	–	–	–
Income tax payable	5,378	–	137,192	21,086
	7,920,012	9,559,532	10,504,010	1,614,437
Net current assets	1,590,641	3,431,412	4,273,807	656,872
Total assets less current liabilities	2,437,015	4,361,101	5,748,444	883,520

	As of December 31,			
	2015	2016	2017	
	RMB	RMB	RMB	US$ (Unaudited)
	(in thousands)			
Non-current liabilities				
Bank and other borrowings – non-current portion	746,656	2,388,429	3,104,096	477,091
Derivative financial liabilities – non-current portion	12,573	2,182	12,333	1,896
Deferred tax liabilities	168,781	170,522	253,388	38,945
	928,010	2,561,133	3,369,817	517,932
Net assets	1,509,005	1,799,968	2,378,627	365,588
Capital and reserves				
Share capital	21,068	24,456	24,469	3,761
Reserves	1,482,872	1,740,653	2,301,560	353,743
Equity attributable to owners of the Company	1,503,940	1,765,109	2,326,029	357,504
Non-controlling interests	5,065	34,859	52,598	8,084
Total equity	1,509,005	1,799,968	2,378,627	365,588

You should carefully consider the risks and uncertainties described below and other information contained in this information memorandum before investing in the Bonds. The risks and uncertainties described below may not be the only ones that we face. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also materially and adversely affect our business, financial condition or results of operations. If any of the possible events described below occurs, our business, financial condition or results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Bonds, and you could lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

We require substantial capital resources to acquire land and develop its projects, which may not be available on commercially reasonable terms, or at all, and are subject to market demand and policy changes

Property development is capital intensive. The availability of adequate financing is crucial to the Group's ability to acquire land and to complete its projects. Our ability to obtain adequate financing for land acquisitions or property development on terms commercially acceptable to it depends on a number of factors, many of which are beyond its control. The PRC government has in recent years introduced numerous policy initiatives in the financial sector to further tighten the requirements for lending to property developers which, among other things:

- prohibit the PRC commercial banks from granting loans to property developers for the purpose of paying land acquisition consideration;

- restrict the PRC commercial banks from granting loans for the development of luxury residential properties;

- require property developers to fund a minimum amount of 20% (commodity residential property projects) and 30% (other projects) of the total estimated capital required for the project with internal funds; and

- prohibit property developers from using borrowings obtained from local banks to fund property developments outside that local region.

As a result, we may not be able to obtain bank loans or funding from other sources in the future on commercially acceptable terms, or at all, which could have a material adverse impact on its business, financial condition and results of operations.

Our operations are subject to extensive government policies and regulations, particularly changes in policies related to the PRC property industry and our operating region

Our principal businesses are real estate property development, which are subject to extensive governmental regulations and we are susceptible to policy changes in the PRC property sector. In particular, the PRC government exerts considerable direct and indirect influence on the development of the PRC property sector by imposing industry policies and other economic measures, such as controls over the supply of land for property development, maximum loan-to-value levels allowed for property developers, purchase limits on number of properties, the imposition of property taxes in certain cities and controls over foreign exchange, property financing, taxation and foreign investment. The PRC government may also restrict or reduce land available for property development, raise the benchmark interest rates of commercial banks, place additional limitations on the ability of commercial banks to make loans to property developers and property purchasers, impose additional taxes and levies on property sales and restrict foreign investment in the PRC property sector.

Since 2010, the PRC government had implemented a series of regulations and policies on property market to curb the property prices and dampen property speculation. These national or local policies may limit our ability to obtain financing, acquire land for future developments, build properties, sell our properties at a profit, generate sufficient operating cash flows from contracted sales, impose additional requirements for pre-sales or restrict the use of funds raised by pre-sale properties only for the purposes of the respective projects. In addition, policies implemented by the PRC government on bank loans and trust financing arrangements for property development projects since January 2010 have had, and may continue to have, a dampening effect on the property markets in which we operate. In February 2013, the State Council announced a series of policies to limit property speculation. Such policies include setting pricing targets for newly developed properties, requiring provincial governments to impose purchase limits and credit restrictions, expanding the scope of experimental property taxes, increasing the supply of land and residential units and tightening market regulations. It is expected that more detailed implementation measures may be adopted by provincial governments to reflect these polices of the State Council. To support the demand of buyers of residential properties and promote sustainable development of China's real estate market, the PBOC and the China Banking Regulatory Commission ("CBRC") jointly issued the Notice of Further Improving Housing Financial Services (《關於進一步做好住房金融服務工作的通知》) in September 2014, providing that where a household owns a residential property and has paid off its existing mortgage loan and applies for a new mortgage loan to buy another residential property to improve its living conditions, the bank may apply the first-time housing purchase mortgage loan policy. In cities that have lifted housing purchase restrictions on residents or those that have not imposed such restrictions, when a household that owns two or more residential properties and has paid off all of its existing mortgage loans applies for a new mortgage loan to buy another residential property, the bank is required to assess the credit profile of the borrower, taking into consideration the solvency and credit standing of the borrower and other factors, and decide the down payment ratio and loan interest rate. In view of the local urbanization plan, banks may provide mortgage loans to non-local residents that meet the conditions as required by the relevant policies. In March 2015, the PBOC, the CBRC and the Ministry of Housing and Urban-Rural Development jointly issued the Notice of Issues concerning Individual Housing Loan Policies (《關於個人住房貸款有關問題的通知》) to lower the minimum down payment to 40% for households that own a residential property and have not paid off their existing mortgage loan applying for a new mortgage loan to purchase another ordinary residential property to improve their living conditions, and allow the bank to decide in its own discretion the down payment ratio and loan interest rate taking into consideration the solvency and credit standing of the borrower. In February 2016, the PBOC and the CBRC issued the Notice of Issues concerning Adjusting the Individual Housing Loan Policies (《關於調整個人住房貸款政策有關問題的通知》), in cities where "housing purchase restriction" measures are not implemented, where a household which owns one housing unit but has not paid off the relevant housing loan applies again for a commercial individual housing loan to purchase an ordinary housing unit to improve living conditions, the minimum down payment ratio shall not be less than 30%. In 2016, the PRC government has adopted certain restrictive measures toward the end of 2016 to cool down the real estate industry. These measures include, among other things, higher minimum down payment requirements, restrictions on the purchase of properties and tightened loan policies.

We cannot assure you that the PRC or local government will not adopt additional and more stringent industry policies, regulations and measures in the future. It is impossible to ascertain the extent of the impact of these measures or to accurately estimate our sales volume and turnover had the measures been introduced. If we fail to adapt our operations to new policies, regulations or measures that may come into effect from time to time with respect to the PRC property industry, or if our marketing and pricing strategies are ineffective in promoting our contracted sales, such policy changes may dampen our contracted sales and cause us to lower our average selling prices and/or incur additional costs, in which case our operating cash flows, gross profit margin, business prospects, results of operations and financial condition may be materially adversely affected.

Our results of operations fluctuated in 2015, 2016 and 2017 and may continue to fluctuate in the future

In 2015, we recorded net loss primarily caused by the low level of volume of properties completed and delivered during the year. While we have commenced the presale of a significantly increased volume of properties since 2015 which have been or will be delivered to buyers in 2016, 2017 and onwards, there can be no assurance that all of our projects will be profitable. Further, there is no assurance that the properties sold during 2016 and 2017 and onwards will be profitable when they are delivered in the future, which in turn could have a material adverse effect on our results of operations and financial condition.

In addition, our historical financial performance is affected by various factors, many of which are beyond our control. These include, among other factors, PRC economic and political environment and the regulatory mechanism and policy for property market. These factors are very hard to predict and may not be able to be successfully managed by us should any of them occur. This could lead to a significant fluctuation in the our business, financial condition and operations which in turn could have a material adverse effect upon our future profitability and the ability of the Company to repay the principal and interest of the Bonds and any other sums payable thereunder. As such, our past financial results should not be unduly relied on as indicative of our future performance.

A number of factors, such as general economic conditions, our financial performance, credit availability from financial institutions and monetary policies in the PRC, may affect our ability to obtain adequate financing for our projects on favorable terms, if at all. Many of these factors are beyond our control. The PRC government has in recent years taken a number of measures in the financial sector to further tighten lending requirements for property developers to cool down excessive growth in the property sector, which, among other things:

- prohibit PRC commercial banks from extending loans to property developers to finance land premiums;
- restrict PRC commercial banks from extending loans for the development of villas;
- restrict PRC commercial banks from granting or extending revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties;
- prohibit PRC commercial banks from taking commodity properties that have been vacant for more than three years as security for mortgage loans;
- prohibit PRC commercial banks from granting loans to development projects that fail to meet capital ratio requirements or lack the required government permits and certificates; and
- prohibit property developers from using borrowings obtained from any local banks to fund property developments outside that local region.

We cannot assure you that the PRC government will not introduce other measures which may limit our access to capital resources. The foregoing and other governmental actions and policy initiatives may limit our ability to use bank borrowings and other borrowings to finance our property developments and, therefore, may require us to maintain a relatively high level of internally sourced cash or obtain funding at a higher cost. As a result, our business, results of operations, and financial condition may be materially and adversely affected.

We may be subject to inquiries, investigations or proceedings from regulatory authorities or other governmental agencies which may have a material adverse effect on our business operations, reputation or financial condition

We may, from time to time, be subject to inquiries, investigations or proceedings from regulatory authorities or other governmental agencies, and we cannot assure you that no legal proceeding or disciplinary actions will result from such inquiry or investigation. Even if we are successful in defending ourselves against these actions, the costs of such defense may be significant to us. In the event that a legal proceeding is commenced and cannot be resolved in our favor, we may be subject to uncertainties as to the outcome of such legal proceeding. Any legal proceeding may be protracted, resulting in substantial costs and diversion of resources and management attention, and it may be difficult to evaluate its outcome. An adverse determination, fines or penalties in any proceedings against us or our directors, officers or key employees may have a material adverse effect on our business operations, reputation and financial condition. An adverse determination may also affect our listing status or impair our ability to repay existing indebtedness.

We may be adversely affected by fluctuations in the global economy and financial markets at the macroeconomic level

The global economic slowdown and turmoil in the global financial markets that started in the second half of 2008 have had a negative impact on the world economy, which in turn has affected the PRC domestic economy. Whilst the PRC government and governments around the world had taken actions to address the financial crisis, financial institutions, companies, investors and consumers attempted to retrench in an effort to reduce exposure, save capital and weather the economic contraction, the outlook for the world economy and financial markets remains uncertain. In Europe, several countries are facing difficulties in refinancing sovereign debt. In the US, the unemployment rate remains high, and recovery in the housing market remains subdued. In the Middle East, political unrest in various countries has resulted in economic instability and uncertainty. In Asia and other emerging markets, some countries are expecting increasing inflationary pressure as a consequence of liberal monetary policy or excessive foreign fund inflow, or both. In May 2017, Moody's Investors Service downgraded China's sovereign credit rating for the first time since 1989 and changed its outlook from stable to negative, citing concerns on the country's rising levels of debt and expectations of slower economic growth. The full impact of the Moody's downgrade remains to be seen, but the perceived weaknesses in China's economic development model, if proven and left unchecked, would have profound implications. If China's economic conditions worsen, or if the banking and financial systems experience difficulties from over-indebtedness, businesses in China may face a more challenging operating environment. More recently, trade tensions between the U.S. and China escalated, where both countries have increased tariff on certain products in their bilateral trade. If U.S. and China trade tension further intensifies, the global economy may be adversely affected and may be subject to increased volatility.

These and other issues resulting from the global economic slowdown and financial market turmoil have adversely affected, and may continue adversely affecting, the general demand for real estate property in the PRC, which may adversely impact our property sales. There is no assurance that further economic slowdown will not occur in the near future, or the PRC government's economic recovery will be sustainable or successful to address the economic slowdown. If market conditions deteriorate or a market downturn occurs again and becomes more severe, longer lasting or broader than expected, we could defer our expansion plans, delay our projects under development or face weakened sales and pre-sales which in turn could cause us to face a material loss of customers and revenue and our shareholder value and overall business prospects could be materially and adversely affected. In addition, any further tightening of liquidity in the global financial markets may negatively affect our liquidity. Therefore, if the global economic slowdown and turmoil in the financial markets crisis continue, our business, financial condition and results of operations may be adversely affected.

We may not be able to meet our project development schedules and complete our projects on time, or at all

Development of property projects involves a complex process that lasts for a long period of time and contains many inherent risks that could prevent the projects from being completed as originally planned. Construction of a particular project may take several years before it can generate positive cash flows through pre-sales, sales and leases, and the timing and costs involved in completing a particular project could be materially and adversely affected by many factors, including, among others:

- delays in obtaining necessary licenses, permits or approvals from government agencies or authorities;
- relocation of existing site occupants and demolishment of existing structures;

- shortages of materials, equipment, contractors and skilled labor;
- labor disputes;
- construction accidents;
- natural catastrophes and adverse weather conditions;
- adverse geographical conditions; and
- changes in market conditions.

Any delay in, or failure to complete, the construction of a particular project according to its planned specifications or schedule may damage our reputation as a property developer, and lead to loss of revenues, potential penalties arising from late delivery of our properties and an increase in construction costs. If we do not complete our projects on time, or at all, its business, financial condition and results of operations may be materially and adversely affected.

We may not be able to continue to attract and maintain major tenants for our investment properties

Our investment properties compete for tenants with a number of other similar properties in the surrounding areas on the basis of a wide range of factors, including location, design, construction quality and management. We also compete for tenants on the basis of rent levels and other lease terms. We cannot assure you that our existing and prospective tenants will not lease properties from our competitors. As a result, we may lose existing and prospective tenants to our competitors and have difficulty in renewing leases when they become due or in finding new tenants. An increase in the number of competing properties, particularly in close proximity to our properties, could increase competition for tenants, reduce the relative attractiveness of our properties and force us to reduce rent or incur additional costs in order to make our properties more attractive. If we are not able to consistently compete effectively for tenants with other property developers or operators, our occupancy rates may decline. This in turn could have a material adverse effect on our business, reputation, results of operations and financial position.

The substantial amount of indebtedness of us and certain of our subsidiaries could have a material adverse effect upon our business, financial condition and operations

We now have, and will continue to have after the issuance of the Bonds, a substantial amount of indebtedness. As of December 31, 2016 and 2017, our total bank and other borrowings amounted to RMB3,456.1 million and RMB4,275.3 million, respectively. Our indebtedness, along with the associating short-term and long-term liquidity risk, could also have important consequences including, but not limited to, (i) increasing our vulnerability to adverse general economic and industry conditions, (ii) limiting, along with the financial and other restrictive covenants of the relevant subsidiary's indebtedness, among other things, our ability to borrow additional funds and (iii) limiting our ability to capitalize on growth and mergers and acquisitions opportunities. If any liquidity risk is realized or we are not able to appropriately service its debts, it could have a material adverse effect on our business and financial condition. Insolvency of the members of the company, or our inability to access additional debt financing as a result of the above could have a material adverse effect on our reputation, business, financial condition and operations.

Our controlling shareholder may take actions that are not in, or may conflict with, our or our creditors' (including the holders of the Bonds) best interests

Our Chairman and Chief Executive Officer, Mr. YU Pan, holds approximately 72.39% of our total issued shares as of the date of this information memorandum. The interests of our controlling shareholder may differ from our interests or the interests of our creditors, including the holders of the Bonds. Our controlling shareholder could have and will continue to have the ability to exercise a controlling influence over our business, and may cause us to take actions that are not in, or may conflict with our best interest and the best interest of our creditors, including the holders of the Bonds, with respect to matters relating to our management and policies and the election of our directors and senior management. Our controlling shareholder will be able to influence our major policy decisions, including our overall strategic and investment decisions, by controlling the election of our directors and, in turn, indirectly controlling the selection of our senior management, determining the timing and amount of any dividend payments, approving our annual budgets, deciding on increases or decreases in our share capital, determining our issuance of new securities, approving mergers, acquisitions and disposals of our assets or businesses and amending our articles of association. For more information, see "Directors and Senior Management" and "Principal Shareholders."

Our business depends substantially on the continuing efforts of the members of our senior management and qualified personnel and our ability to attract and retain them, and, if we lose the services of any of these key management and personnel and cannot replace them in a timely manner, or at all, our business may be materially and adversely affected

Our business depends, to a significant extent, on the capability and expertise of our senior management team members, including our executive directors and other members of our management who have operational experience in the real estate business. In particular, we rely on Mr. YU Pan, our Chairman and Chief Executive Officer, who has more than 28 years of experience in the development and management of real estate. If some of our senior management team members are unable or unwilling to continue in their present positions, we may not be able to identify and recruit suitable replacements in a timely manner, or at all, and the implementation of our business strategies may be affected, which could materially and adversely affect our operations. In addition, we rely on our employees, which include qualified design, construction management, quality control, marketing, on-site supervisory and construction management personnel for our daily operations and business expansion. We cannot assure you that we will be able to continue to attract and retain sufficient skilled and experienced employees in the future. If we fail to recruit, retain or train skilled employees, our growth and business prospects could be adversely affected.

The full-fledged levy of value added tax on revenues from a comprehensive list of service sectors may subject our revenues to an average higher tax rate

Pursuant to the Notice on Adjustment of Transfer Business Tax to Appreciation Tax (關於全面推開營業税改徵增值税試點的通知) issued on March 23, 2016 and implemented on May 1, 2016 ("Circular 36") by the Ministry of Finance ("MOF") and the PRC State Administration of Taxation ("SAT"), effective from May 1, 2016, PRC tax authorities have started imposing value added tax ("VAT") on revenues from various service sectors, including real estate, construction, financial services and insurance, as well as other lifestyle service sectors, to replace the business tax that co-existed with VAT for over 20 years. Since the issuance of Circular 36, the MOF and SAT have subsequently issued a series of tax circulars in March and April 2016 to implement the collection of VAT on revenues from construction, real estate, financial services and lifestyle services. The VAT rates applicable to us may be generally higher than the business tax rate we were subject to prior to the implementation of Circular 36.

For example, the VAT rate for the sale of self-developed real estate projects will be increased from 5% (the applicable business tax rate prior to May 1, 2016 and the applicable VAT rate for sale of "old projects", i.e. real property whose construction commenced prior to May 1, 2016) to 11%. Unlike business tax, the VAT will only be imposed on added value, which means the input tax incurred from our construction and real estate can be offset from our output tax. However, new rules concerning VAT for the real estate sector may be subject to changes and will only be finalized after the interim-period under Circular 36. We are still in the process of assessing the comprehensive impact of the new VAT regime on our tax burden, our revenues and results of operations, which remains uncertain.

The occurrence of defaults by us or any of our subsidiaries under our or their respective existing agreements may have a material adverse effect on our reputation, business, financial condition and operations

In addition to the indebtedness issues identified above, if a member of us is unable to comply with the restrictions and covenants in its current or future debt and other agreements (including the Bonds), there could be a default under the terms of such agreements. In the event of a default under such agreements, the holders of the debt have the option to terminate their commitments to lend to the Group as a whole or the relevant member(s) of the Company and accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements. Some of the financing arrangements entered into by members of the Group may contain cross-acceleration or cross-default provisions. As a result, a default under one debt agreement may cause the acceleration of debt or result in a default under other debt agreements. If any of these events occur, there is no guarantee that the Company assets and cash flow would be sufficient to repay in full all of such indebtedness, or that we would be able to find alternative financing. Even if members of the Group could obtain alternative financing, there is no guarantee that such financing would be on terms that are favorable or acceptable to the Group as a whole or the relevant member(s) of the Group. This could have a material adverse effect on our reputation, business, financial condition and operations.

Increasing competition in the PRC, particularly from developers of properties similar to ours in Guangdong province and other cities or regions in the PRC and overseas where we operate or intend to operate, may adversely affect our business and financial condition

In recent years, many property operators and developers have entered the property development market in the PRC. Some of them may have more financial and other resources than us and may be more sophisticated than us in terms of engineering, technical, marketing and management skills. Competition among property operators and developers in the PRC may result in an increase in the land acquisition costs and raw material costs, shortages in quality construction contractors, an oversupply of properties leading to decreasing property prices, further delays in issuance of government approvals and higher costs to attract or retain experienced employees, any of which may adversely affect our business and financial condition. Moreover, residential property markets across the PRC are influenced by various other factors, including changes in government policies or regulations, economic conditions, banking practices and customer sentiments. If we fail to respond appropriately to changes in the property markets where we have operations, our business and financial condition may also be adversely affected.

With regard to our investment properties comprising mainly retail properties and carparking spaces, we face competition from the surrounding shopping centers in the area where our retail properties are located. The new supply of retail projects in the cities and regions where our investment properties are located could adversely impact the occupancy rates and revenues of these properties, which would in turn have adverse effects on our revenue from rental income and results of operations. Factors that affect the ability of our investment properties to attract or retain tenants include the attractiveness of the building and the surrounding areas to prospective tenants and their customers and the quality of the building's existing tenants. Where properties of our competitors are developed or substantially upgraded and refurbished, the attractiveness of our investment properties may be affected, which may adversely impact the rental rates and terms and hence reduce its income.

We cannot assure you that our competitors will not engage in construction of new properties in markets in which we operate or plan to operate or engage in significant price discounting to attract customers. Furthermore, as a real estate developer, our continued success in maintaining and enhancing the recognition of our brand depends, to a large extent, on our ability to provide consistent, high-quality accommodations and services across our property portfolio and design and introduce new accommodations and services to meet customer demands. If we are unable to maintain and enhance our brand reputation, our occupancy and rent rates may decline, which would adversely affect our business and results of operations.

If we fail to respond to these changes in market conditions or customer preferences more swiftly or effectively than our competitors, our business, results of operations and financial condition could be adversely affected.

Our business may be adversely affected if we fail to obtain, or if there is any delay in obtaining, the relevant PRC governmental approvals for our property development projects

We are required to obtain various permits, licenses, certificates and other approvals from the relevant PRC government authorities at various stages of project development including, but not limited to, state-owned land use rights certificates, planning permits for construction land, planning permits for construction works, permits for commencement of construction works, pre-sale permits for commodity properties and certificates or confirmations of completion and acceptance. In particular, we are required to obtain state-owned land use rights certificates before commencing any property development and such certificates would generally only be issued after certain conditions have been satisfied. Such conditions include the relevant project company having executed the state-owned land use rights granting contracts (國有土地權出讓合同) with the relevant authorities whereby the land use rights are granted to the relevant project company, provided we have paid the land premium in full.

As of December 31, 2017, we had a total site area of approximately 321,000 sq.m. in properties held for future development in Guangzhou, Shenzhen, Zhongshan, Nanning and Xuzhou, corresponding to approximately 1,275,000 sq.m. in estimated GFA, approximately 969,000 sq.m. out of which we had not obtained the relevant land use rights certificates. The aggregate amount of the outstanding land premiums are estimated to be approximately RMB1.28 billion as of December 31, 2017 that are payable on three sites in Guangzhou, Shenzhen and Nanning once the land premium is due for payment and the corresponding change in land use and re-development rights are obtained.

We cannot assure you that we will receive the various land use rights certificates within the expected time frame, because the timing of issuance of such certificates may be subject to factors out of our control, including the relevant government resettlement schedules. If we fail to receive such certificates, our development schedule may be disrupted, which, in turn, may have a material and adverse effect on our business, results of operations and financial condition.

We cannot assure you that we will not encounter problems in obtaining other government approvals or in fulfilling the conditions required for obtaining other government approvals and certificates. If we fail to obtain the relevant approvals or to fulfill the conditions of the approvals and certificates for our property development, those developments may not proceed on schedule. As a result, our business, results of operations and financial condition may be materially and adversely affected.

We are exposed to contractual and legal risks related to pre-sales, which could have a material adverse effect on our business, financial condition and result of operations

We make certain undertakings in our pre-sale contracts, and our pre-sale contracts and the PRC laws and regulations provide for remedies for breach of these undertakings. For example, if we fail to complete a pre-sold property on time, we may be liable to the relevant customers for such late delivery under the relevant pre-sale contracts or pursuant to relevant PRC laws and regulations. If our delay extends beyond a specified period, the purchasers may terminate their pre-sale contracts and claim for damages. A customer may also refuse to accept the delivery or even terminate the pre-sale contracts if the GFA of the relevant unit, as set out in the individual property ownership certificate, deviates by more than 3% from the GFA of that unit set out in his or her contract. We cannot assure you that we will not experience any delays in the completion and delivery of our properties, nor that the GFA for a delivered unit will not deviate more than 3% from the GFA set out in the relevant pre-sale contract. Any of such factors could have a material adverse effect on our business, financial condition and results of operations.

Changes of PRC laws and regulations with respect to pre-sales may adversely affect our business

We depend on cash flows from pre-sales of properties as an important source of funding for our property developments. Under current PRC laws and regulations, property developers must fulfill certain conditions before they can commence pre-sales of the relevant properties and pre-sales proceeds may only be used to finance the related development. In August 2005, the PBOC issued a report entitled "2004 Real Estate Financing Report," in which it recommended discontinuing the practice of pre-selling uncompleted properties because it created significant market risks and transactional irregularities. However, there can be no assurance that the PRC government will not adopt this recommendation or otherwise ban or impose additional restrictions on pre-sales in the future. Any ban or additional restrictions on pre-sales may require us to seek alternative sources of funding to finance our developments, and such alternative funding may not be available to us on attractive terms, or at all, in which case our cash flow and prospects, and our business, results of operations and financial condition could be materially and adversely affected.

Our expansion may be risky, costly, time consuming and face execution risks. If our development fall short of our expansion plans or if the plans are later proved ill advised, our prospects, business, financial condition and results of operations may be adversely affected

We are currently engaged in property development and property investment. We plan to expand our property portfolio in China. We also plan to provide financial support, through an investment fund, to selected start-up entrepreneurs. There are significant risks involved in the our expansion plans, including whether the timing and size of our expansion plans will result in greater revenues and profitability, whether the expansion plans will burden the Group with excessive debt or other costs and, further, whether we will be able to expand in a timely and efficient manner. For example, we may not be able to receive expected return from our investment in start-up companies. Our success depends largely on our ability to anticipate and react to expected or unforeseen changes in future demand. In particular, our business may be affected in the future if either our decision to expand our businesses, or the timing and progress of our expansion, proves not to have anticipated market demand correctly. If we over-expand or demand does not grow as expected, it could have a material adverse effect upon our business, financial condition and operations.

We rely on third-party architecture and design firms and construction contractors for various services relating to our property developments and are subject to risks relating to their performance and reputation and any additional unforeseen costs associated with engaging them

We engage third-party architecture and design firms and construction contractors to carry out various services relating to our property development projects. Services provided by third-party architecture and design firms include master planning, architectural design, landscape design, interior design and ancillary facilities design. Services provided by third-party construction contractors include construction, piling and foundation, engineering, interior decoration, mechanical and electrical installation and utilities installation. Construction and completion of our projects is, therefore, largely subject to the performance of these independent firms and contractors. When selecting third-party architecture and design firms, we take into consideration factors such as reputation, technical abilities, product innovation capabilities, track record in developing similar projects, service standards and past relationship with us. Although we generally engage firms or designers that are reputable, we cannot assure you that the work or designs rendered by any of these firms will meet the needs and preferences of our potential customers. We generally select independent contractors through a tender process. Although we invite contractors to tender bids which we assess and consider according to their reliability, timeliness, quality, past relationship with us, track record and references, and our supervision of the construction progress once a contract is awarded, we cannot assure you that the services rendered by any of these independent contractors or their subcontractors will be satisfactory or meet our quality standard, especially since it is difficult for us to effectively monitor the quality and progress of contracted work at all times.

In addition, reputation and brand name are important to architecture and design firms and construction companies. Any negative incident or negative publicity affecting the reputation of these firms and companies may in turn have a negative impact on our properties that are designed or constructed by them. Moreover, construction or completion of our property developments may be delayed, and we may incur additional costs, due to financial or other difficulties related to these design firms and contractors. Any of these factors could have a material adverse effect on our business, reputation, results of operations and financial position.

Changes in the tax rates or revocation of tax exemptions may adversely affect our profitability

Pursuant to the newly promulgated Enterprise Income Tax Law of the PRC ("New Tax Law"), which was promulgated on March 16, 2007 and became effective on January 1, 2008, the new enterprise income tax ("EIT") rates for domestic and foreign enterprises are unified at 25% effective from January 1, 2008. As a result, the EIT rate of all the subsidiaries of the Company incorporated in the PRC have changed from 33% to 25% with effect from January 1, 2008. The New Tax Law came into effect on January 1, 2008, and the Foreign Enterprise Income Tax Law and its Implementation Rules were repealed.

There can be no assurance that the existing PRC Government policies and legislation on tax will continue and any change in the PRC tax policies or legislation regarding the tax exemptions currently enjoyed by us may result in a change in the our effective tax rate, which may have an adverse impact on our profitability.

If our provisions for land appreciation tax ("LAT") prove to be insufficient, our financial results would be adversely affected

Our properties developed for sale are subject to LAT. Under PRC tax laws and regulations, all income derived from the sale or transfer of land use rights, buildings and their ancillary facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value. LAT is calculated based on proceeds received from the sale of properties less deductible expenditures as provided in the relevant tax laws. We make provisions for the estimated full amount of applicable LAT in accordance with the relevant PRC tax laws and regulations from time to time pending settlement with the relevant tax authorities. As we often develop our projects in phases, deductible items for the calculation of LAT, such as land costs, are apportioned among different phases of development. Provisions for LAT are made on our own estimates based on, among other things, our own apportionment of deductible expenses which is subject to final confirmation by the relevant tax authorities upon settlement of the LAT. We only prepay a portion of such provisions each year as required by the local tax authorities. In 2015, 2016 and 2017, we made provisions for LAT in RMB16.2 million, RMB4.9 million and RMB170.8 million (US$26.4 million), respectively. We cannot assure you that the relevant tax authorities will always agree with our calculation of LAT liabilities, nor can we assure you that the LAT provisions will be sufficient to cover our LAT obligations in respect of our past LAT liabilities. If the relevant tax authorities determine that our LAT liabilities exceed our LAT prepayments and provisions, and seek to collect that excess amount, our cash flow, results of operations and financial condition may be materially and adversely affected. In addition, as we continue to expand our property developments, we cannot assure you that our provision for LAT obligations based on our estimates in new markets will be sufficient to cover our actual LAT obligations. As there are uncertainties as to when the tax authorities will enforce the LAT collection and whether it will apply the LAT collection retrospectively to properties sold before the enforcement, any payment as a result of the enforcement of LAT collection may significantly restrict our cash flow position, our ability to finance our land acquisitions and to execute our business plans.

Failure to implement our strategy could adversely affect our operations and business

We will have to continually improve the quality of our management, increase the efficiency of its operating and financial systems, procedures and controls and expand the size of our workforce. There can be no assurance that we will be able to achieve any or all of the above successfully.

The expansion of our operations and business also depends on our ability to implement our strategies for future growth. Whether these strategies can be implemented is dependent on a number of factors. We may also require additional funds from time to time to pursue our future strategies. There can be no assurance that our strategies can be implemented successfully or that funds required to implement such strategies will be available.

The total GFA of some of our developments may exceed the original permitted GFA and the excess GFA is subject to governmental approval and will require us to pay additional land premium

The permitted total GFA for a particular development is set out in various governmental documents issued at various stages. In many cases, the underlying land grant contract will specify permitted total GFA. Total GFA is also set out in the relevant urban planning approvals and various construction permits. If constructed total GFA exceeds the permitted total, or if the completed development contains built-up areas that the authorities believe do not conform to the approved plans as set out in relevant construction works planning permit, we may not be able to obtain the acceptance and compliance form of construction completion (竣工驗收備案表) for our development and, as a consequence, we would not be able to deliver individual units to purchasers or to recognize the related pre-sale proceeds as revenue. Moreover, excess GFA requires additional governmental approval, and the payment of additional land premium. If issues related to excess GFA cause delays in the delivery of our products, we may also be subject to liability to purchasers under our sales and purchase agreements. We cannot assure you that constructed total GFA for each of our existing projects under development or any future property developments will not exceed permitted total GFA, or that the authorities will determine that all built-up areas conform to the plans approved as set out in the construction permit. Moreover, we cannot assure you that we would have sufficient funding to pay any required additional land premium or to take any remedial action that may be required in a timely manner, or at all. Any of these factors may materially and adversely affect our reputation, business, results of operations and financial condition.

Compliance with PRC laws and regulations regarding environmental protection or preservation of antiquities and monuments could result in substantial delays in construction schedule and incurrence of additional costs

We are subject to extensive PRC laws and regulations concerning environmental protection and preservation of antiquities and monuments which impose fines for violation and authorize government authorities to shut down any construction sites that fail to comply with governmental orders requiring the cessation of certain activities causing environmental damage. The application of such laws and regulations vary greatly according to a site's location, its environmental condition, present and former use, as well as the circumstances of its adjoining properties. Such variation in application may result in delays in our project completion and may cause us to incur substantial compliance and other costs and severely restrict our project development activities in certain regions or areas.

As required by PRC laws and regulations, each project we develop is required to undergo environmental assessments and the related assessment document must be submitted to the relevant government authorities for approval before commencement of project construction. If we fail to meet such requirements, the local authorities may issue orders to suspend our construction activities and impose a penalty of not less than 1% but no more than 5% of the total investment of the project. We cannot assure you that we will be able to comply with all such requirements with respect to environmental assessments. In the event of a suspension of construction and/or imposition of a fine as a result of our non-compliance, our financial condition may be materially and adversely affected.

There is a growing awareness of environmental issues in the PRC and we may sometimes be expected to meet more stringent standards than those under applicable environmental laws and regulations. We have not adopted any special environmental protection measures other than the measures generally taken in the ordinary course of business by comparable companies in our industry. There is no assurance that more stringent requirements on environmental protection will not be imposed by the relevant PRC governmental authorities in the future. If we fail to comply with existing or future environmental laws and regulations or fail to meet public expectations, our reputation may be damaged or we may be required to pay penalties or fines or take remedial actions, any of which could have a material adverse effect on our business, results of operations and financial condition.

We may be involved in legal and other proceedings arising out of our operations from time to time and may face significant liabilities as a result

We may be involved in disputes with various parties involved in the development and sale of our properties, including contractors, suppliers, construction workers, purchasers and project development partners. These disputes may lead to legal or other proceedings and may result in substantial costs and diversion of resources and management's attention. As some of our projects comprise multiple phases, purchasers of our properties in earlier phases may file legal actions against us if our subsequent planning and development of the projects are perceived to be inconsistent with our representations and warranties made to such earlier purchasers. In addition, we may have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decrees that result in pecuniary liabilities and cause delays to our property developments. From time to time, our officers and management may be parties to litigation or other legal proceedings. Even though our company may not be directly involved in such proceedings, such proceedings may affect our reputation and, consequently, adversely impact our business.

Any deterioration in the quality and reputation of our brand or any infringement of our intellectual property rights could adversely affect our business, financial condition or results of operations

We rely to a significant extent on our brand name, "Skyfame", in marketing our properties on sale or management of our investment properties and hotels. Our ability to attract and retain guests depends, in part, on the public recognition of our brand and its associated reputation. In addition, the success of our other businesses may indirectly depend on the strength and reputation of our brand. Such dependence makes our business susceptible to risks regarding brand obsolescence and to reputational damage. We intend to continue to use our brand "Skyfame" to expand our operations and other businesses. If our brand becomes obsolete or are viewed as outdated or lacking in quality or consistency, we may be unable to attract property buyers, lessees or guests to our hotels. Brand value is based largely on subjective consumer perception and can be damaged by isolated incidents that diminish consumer trust. Any negative incident or negative publicity concerning us or our business could adversely affect our reputation and business. Our brand value and consumer demand for our properties could decline significantly if we fail to maintain the quality of our properties or fail to deliver a consistently positive experience for the purchasers of our properties, or if we are perceived to have acted in an unethical or socially irresponsible manner.

In addition, our efforts to protect our brand name may not be adequate, and we may be unable to identify any unauthorized use of our brand name or to take appropriate steps to enforce our rights on a timely basis. Any unauthorized use or infringement of our brand name may impair our brand value, damage our reputation and materially and adversely affect our business and results of operations. In addition, we have appointed Jones Lane LaSalle to act as the consultant to our property management of our residential project at Zhoutouzui, Guangzhou, and we allow our property management company to manage our properties and may in the future authorize additional non-Group companies, to use our brand. While we seek to maintain our brand image by requiring these companies to comply with relevant rules and standards relating to the use of our brand name, we cannot assure you that these parties will not use our brand name in a way that negatively affects our reputation and the reputation of our projects, which in turn may have an adverse effect on our results of operations and financial condition.

Furthermore, there are many factors that could negatively affect the reputation of our brand. Changes in ownership or management practices, the occurrence of accidents or injuries, crime, natural disasters, individual guest notoriety, or similar events can have a substantial negative impact on our reputation, create adverse publicity and cause a loss of consumer confidence in our business. Because of the regional nature of our brand and business, events occurring in one location could have a resulting negative effect on the reputation and operation of otherwise successful locations. If our reputation is damaged, our business, financial condition or results of operations could be adversely affected.

We rely on trademark and copyright law, trade secret protection and confidentiality agreements with our employees, customers, business partners and others to protect our intellectual property rights. Despite the precautions taken, it may be possible for third parties to obtain and use our intellectual property without authorization, which may adversely affect our business and reputation. Moreover, litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of resources and, consequently, adversely affect our business and results of operations.

We may not have adequate insurance coverage to cover our potential liability or losses and, as a result, our business, results of operations and financial condition may be materially and adversely affected

We maintain insurance as required by applicable PRC laws and regulations and as we consider appropriate for our business operations. We do not, however, maintain insurance against all risks associated with our operations, such as insuring our projects under development against natural or accidental damage and destruction by fire, flood, lightning, explosions or other hazards during construction periods or insuring our assets against certain natural disasters. We may incur losses, damages or liabilities during any stage of our property development and we may not have sufficient funds to cover the same or to rectify or replace any uninsured property or project that has been damaged or destroyed. In addition, any payments we are obligated to make to cover any losses, damages or liabilities may materially and adversely affect our business, results of operations and financial condition.

RISKS RELATING TO OUR INDUSTRY

The real estate industry in the PRC is still at an early stage of development, and the property market and related infrastructure and mechanisms have not been fully developed

Private ownership of property in the PRC is still in a relatively early stage of development. Although demand for private residential property in the PRC has been growing rapidly in recent years, it is extremely difficult to predict how much and when demand will develop, as many social, political, economic, legal and other factors, most of which are beyond the Group's control, may affect the development of the property market. The level of uncertainty is increased by the limited availability of accurate financial and market information as well as the overall low level of transparency in the PRC. The lack of a liquid secondary market for residential real estate may discourage investors from acquiring new properties. The limited amount of property mortgage financing available to PRC individuals, compounded by the lack of security of legal title and enforceability of property rights, may further inhibit demand for residential developments.

In addition, the property market in the PRC is rapidly changing due to factors such as fluctuations in regional economy, availability of competitive property developments, product quality as well as changes in customer preferences which may have a direct impact upon our sales. As property development projects take a long time and property market changes quickly, if we fail to respond in time to changes in the property market, our developments may not meet the market demand and may lead to poor sales. Further, if we position our developments incorrectly or our competitors supply a large number of properties in a very short period of time, this will also affect our sales. If we cannot respond to changes in market conditions or changes in customer preferences as swiftly or as effectively as our competitors, our business, results of operations and financial condition could be materially and adversely affected.

The regulatory measures adopted from time to time by the PRC Government to curtail the overheating of, and foreign investment in, the PRC property market may slow down the growth of the PRC property market or cause the PRC property market to decline

In response to concerns over the extent of the increase in property investment and the overheating of the real estate sector in the PRC over the past few years, the PRC Government has introduced policies to stabilize property prices. These policies will increase the purchasing cost of real estate properties and is expected to have a material adverse impact on demand for properties in the PRC, which in turn could have a material adverse effect on our business, financial condition and results of operations. We cannot assure you that property development and investment activities in the PRC will continue at past levels or that there will not be an economic downturn in the property markets in the regions and cities of the PRC where we operate or intend to expand our operations.

The construction business and the property development business are subject to claims under statutory quality warranties

Under Regulations on the Administration of Quality of Construction Works (建設工程質量管理條例), all property development companies in the PRC must provide certain quality warranties for the properties they construct or sell. We are required to provide these warranties to our customers. We may sometimes receive quality warranties from our third-party contractors with respect to its development projects. If a significant number of claims are brought against us under our warranties and if we are unable to obtain reimbursement for such claims from third-party contractors in a timely manner or at all, it could incur significant expenses to resolve such claims or face delays in correcting the related defects, which could in turn harm our reputation and have a material and adverse effect on its business, financial condition and results of operations.

We face intense competition from other real estate developers

In recent years, a large number of property developers, including a number of leading Hong Kong property developers and other overseas developers, have begun undertaking property development and investment projects in the PRC. Some of these developers may have better track records and greater financial, land and other resources, broader name recognition and greater economies of scale than us.

Competition among property developers may result in an increase in acquisition costs of land for development, an increase in costs for raw materials, an over-supply of properties, a decrease in property prices in certain parts of the PRC or an inability to sell such properties, a slowdown in the rate at which new property developments are approved or reviewed by the relevant PRC Government authorities and an increase in administrative costs for hiring or retaining qualified personnel, any of which may adversely affect the our business, financial position and results of operations. In addition, recent market downturns in the PRC may further decrease property prices. If we cannot respond to changes in market conditions in the markets in which the Group operates more swiftly and effectively than its competitors, its business, financial position and results of operations may be materially and adversely affected.

RISKS RELATING TO THE PRC

Changes in political and economic policies of the PRC government could affect our business and results of operations

At present, the PRC is a developing economy. It differs from developed economies in many respects, including:

- its structure;
- the level of governmental involvement;
- the level of development;
- growth rate;
- the control of foreign exchange; and
- the allocation of resources.

Prior to the PRC Government's adoption of the "open door" reform policies in 1978, the PRC had a planned economy. Since then, the PRC Government has implemented a number of measures to encourage growth and to guide the allocation of resources, thus resulting in significant economic and social development in the past 30 years. With its economic reform policies, the PRC has since transitioned into a more market-oriented economy.

Our ability to continue to expand its business is dependent on a number of factors, including general economic and capital market conditions in the PRC. The PRC Government has implemented various measures to control the rate of economic growth and uses its monetary policies to influence the economy.

As a significant portion of the our business operations and assets are in the PRC, the business, prospects, financial condition and results of operations may be adversely affected by political, economic and social developments in the PRC, as well as by regional events affecting the PRC. Such political, economic and social developments include, but are not limited to, changes in government policies, political instability, expropriation, nullification of existing contracts due to change in law, labour activism, war, civil unrest, terrorism, and changes in interest rates, foreign exchange rates, taxation, environmental regulations and import and export duties and restrictions. Any such changes in the PRC may have a material adverse effect on our business, financial condition and results of operation.

There are uncertainties regarding the interpretation and enforcement of the PRC laws and regulations

The PRC legal system is based on written statute and prior court decisions can be cited only as a reference and are not binding precedents. Since 1979, the PRC Government has been developing a comprehensive system of laws, rules and regulations in relation to economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations involve some degree of uncertainty, which may lead to additional restrictions and uncertainty for our business and uncertainty with respect to the outcome of any legal action that may be taken against us in the PRC.

Devaluation or appreciation in the value of the Renminbi could adversely affect the our profits

The external value of the Renminbi is subject to changes in policies of the PRC Government and to international economic and political developments. The People's Bank of China will periodically adjust the Renminbi exchange rate band as necessary and, as a consequence, the Renminbi exchange rate will be more flexible than before. There is therefore a risk that the fluctuations in the Renminbi exchange rate may be greater than were previously experienced and any large appreciation or devaluation of the Renminbi against the US Dollar could have an adverse effect on the our business and operating results.

We may be subject to sanctions by the PRC government if we fail to comply with relevant PRC laws and regulations or be subject to late payment fees if we breach the terms of the land grant contracts

Under PRC laws and regulations, if a developer fails to develop land according to the terms of the land grant contract (including those relating to designated use of land, time for commencement and completion of development of the land), the relevant government authorities may issue a warning to, or impose a penalty on, the developer or require the developer to forfeit the land use rights.

Under typical land grant contracts, any violation of payment schedule of land premium as stipulated under the land grant contracts may subject a developer to late payment fees or even result in termination of the land grant contracts. We cannot assure you that we will not experience delays in making land premium payment in the future. If we incur late payment fees in the future, our business, financial position and results of operations may be materially and adversely affected.

Under Law on Civil Air Defense of the PRC (中華人民共和國人民防空法), newly built civil buildings shall construct underground spaces as required under relevant rules and regulations for air defense purpose during war time. Therefore local authorities generally stipulate certain site areas of the civil air defense underground spaces of a project during the project planning in accordance with relevant laws, rules and local regulations. According to Civil Air Defense Law and Management Measures of Normal Development and Utilization of Air Defense Projects (人民防空工程平時開發利用管理辦法), civil air defense projects are normally under the management of investors who are entitled to the proceeds from such projects. Hence each company who develops air defense underground spaces has the right to receive proceeds from such projects by lease or other measures. As of December 31, 2017, most of our civil air defense underground spaces are used for car parks, representing an insignificant portion of our property portfolio. We have accounted for such properties as completed properties held for sale.

We may be deemed to be a PRC tax resident enterprise under the EIT Law, which could result in unfavorable tax consequences to us and our non-PRC holders of the Bonds

The Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the "EIT Law") was issued by the NPC, which came in to effect on January 1, 2018 and amended on February 24, 2018, as supplemented by its implementation regulations. Under the EIT Law, enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" and will generally be subject to a uniform 25% enterprise income tax ("EIT") on their worldwide income. Under the implementation rules of the EIT Law (the "EIT Rules"), "de facto management bodies" are defined as bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Substantially all of our management is currently based in China and may remain in China. Therefore, we may be treated as a PRC resident enterprise for EIT purposes and thus be subject to EIT on our worldwide income. However, a PRC resident enterprise is exempt from tax on dividend income received from qualified resident enterprises. The tax consequences to us in the case that we are treated as a PRC resident enterprise are not entirely clear, as they will depend on the implementation regulations and how local tax authorities apply or enforce the EIT Law and the EIT Rules. Furthermore, if we are treated as a PRC "resident enterprise", we may be obligated to withhold PRC income tax, generally at a rate of 10% on payments of interest on the Bonds to investors that are "non-resident enterprises" and a rate of 20% on payments of interest on the Bonds to investors that are "non-resident individuals" because the interest may be regarded as being derived from sources within the PRC, unless a lower rate is applicable. If we are required under the PRC tax laws to withhold PRC tax on our interest payable to bondholders who are "non-resident enterprises" or "non-resident individuals," we will be required, subject to certain exceptions, to pay such additional amounts as will result in receipt by the holder of each Bonds of such amounts as would have been received by such holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Bonds and could have a material adverse effect on our ability to pay interest on, and repay the principal amount of, the Bonds, as well as our profitability and cash flow. If we fail to do so, we may be subject to fines and other penalties. Further, if we are treated as a PRC "resident enterprise," any gain realized by a "non-resident enterprise" investor from the transfer of the Bonds may be regarded as being derived from sources within the PRC and, accordingly, may be subject to a 10% PRC tax, while a "non-resident individual" investor might be subject to a 20% PRC tax.

The property development business is subject to claims under statutory quality warranties

Under Regulations on the Administration of Quality of Construction Works (建設工程質量管理條例), which became effective on January 20, 2000, all property developers in the PRC must provide certain quality warranties for the properties they construct or sell. We are required to provide these warranties to our customers. Generally, we receive quality warranties from our third-party contractors with respect to our property projects. If a significant number of claims are brought against us under our warranties, and if we are unable to obtain reimbursement for such claims from third-party contractors in a timely manner, or if the money retained by us or the indemnity provided to cover our payment obligations under the quality warranties is not sufficient, we may incur significant expenses to resolve such claims or face delays in remedying the related defects, which may in turn harm our reputation, and materially and adversely affect our business, financial condition and results of operations.

Our business depends substantially on the continuing efforts of the members of our senior management and qualified personnel and our ability to attract and retain them, and, if we lose the services of any of these key management and personnel and cannot replace them in a timely manner, or at all, our business may be materially and adversely affected

Our business depends, to a significant extent, on the capability and expertise of our senior management team members, including our executive directors and other members of our management who have operational experience in the real estate business. In particular, we rely on Mr. Yu Pan, our Chairman, who has more than 28 years of experience in the development and management of properties. If one or more of our senior management team members are unable or unwilling to continue in their present positions, we may not be able to identify and recruit suitable replacements in a timely manner, or at all, and the implementation of our business strategies may be affected, which could materially and adversely affect our operations. In addition, we rely on our employees, which include qualified design, construction management, quality control, marketing, on-site supervisory and construction management personnel for our daily operations and business expansion. We cannot assure you that we will be able to continue to attract and retain sufficient skilled and experienced employees in the future. If we fail to recruit, retain or train skilled employees, our growth and business prospects could be adversely affected.

We may be subject to additional payments of statutory employee benefits

As required by PRC regulations, we make contributions to mandatory social security funds for the benefit of our PRC employees that provide for pension insurance, medical insurance, unemployment insurance, personal injury insurance, maternity insurance and housing funds, to designated government agencies.

We cannot assure you that we will not be subject to any employee complaints regarding payment of the social insurance or housing provident funds against us, or that we will not receive any claims in respect of social insurance contributions under national laws and regulation. In addition, we may incur additional expenses to comply with such laws and regulations by the PRC government or relevant local authorities.

Voluntary withdrawal from entering into definitive land grant contracts with the local PRC governments after successful bidding for land parcels may lead to the forfeit of the prepayment for the relevant land acquisitions

Under current PRC laws and regulations, we are required to make a certain deposit to the local PRC governments in order to participate in the tender, auction or listing process. This deposit typically becomes non- refundable after a developer wins a bid for a land parcel. If we have to abort land acquisitions in the future after entering into definitive land grant contracts with the local PRC governments, our business, financial condition and results of operations will be materially and adversely affected.

RISKS RELATING TO THE BONDS

The Bonds will be structurally subordinated to all of our secured debt and if a default occurs, we may not have sufficient funds to fulfill our obligations under the Bonds

We are a holding company with no material operations. We conduct our operations through our subsidiaries. The Bonds will not be guaranteed by any current or future subsidiaries.

The Bonds are general senior unsecured obligations that rank equally in right of payment with all of our existing and future unsecured and unsubordinated indebtedness. The Bonds will be structurally subordinated to all our secured indebtedness and other obligations to the extent of the value of the assets securing that indebtedness and other obligations. As of December 31, 2017, we had approximately RMB3,256.5 million (US$500.5 million) of secured bank and other borrowings. In addition, the Trust Deed will, subject to some limitations, permit us to incur additional secured indebtedness and your Bonds will be effectively junior to any additional secured indebtedness we may incur.

In the event of our bankruptcy, liquidation, reorganization or other winding up, our assets that secure our secured indebtedness will be available to pay obligations on the Bonds only after all secured indebtedness, together with accrued interest, has been repaid in full from our assets. If we are unable to repay our secured indebtedness, the lenders could foreclose on substantially all of our assets which serve as collateral. In this event, our secured lenders would be entitled to be repaid in full from the proceeds of the liquidation of those assets before those assets would be available for distribution to other creditors, including holders of the Bonds. Holders of the Bonds will participate in the proceeds of the liquidation of our remaining assets ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as the Bonds, and potentially with all of our other general creditors. We advise you that there may not be sufficient assets remaining to pay amounts due on any or all the Bonds when outstanding.

We have substantial indebtedness and may incur substantial additional indebtedness in the future, which could adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations

We now have, and will continue to have after the issuance of the Bonds, a substantial amount of indebtedness. As of December 31, 2015, 2016 and 2017, we had total liabilities, including, among others, bank and other borrowings, derivative financial liabilities, deferred tax liabilities and taxation payables, of RMB8,848.0 million, RMB12,120.7 million and RMB13,873.8 million (US$2,132.4 million), respectively. As of December 31, 2015, 2016 and 2017, our total bank and other borrowings amounted to RMB2,759.8 million, RMB3,456.1 million and RMB4,275.3 million (US$657.1 million), respectively.

- Our substantial indebtedness could have important consequences to you. For example, it could:

- limit our ability to satisfy our obligations under the Bonds and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and for other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds; and
- increase the cost of additional financing.

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. Under the Terms and Conditions of the Bonds, our ability to incur additional debt is subject to limitation on indebtedness and preferred stock covenant in Condition 4(a). Under such covenant, we may incur (i) certain Permitted Indebtedness or (ii) additional indebtedness if we can, among other things, satisfy the Fixed Charge Coverage Ratio. The Fixed Charge Coverage Ratio is derived by dividing Consolidated EBITDA by Consolidated Fixed Charges. Because our definition of Consolidated EBITDA includes our unrealized gains on valuation adjustments on our investment properties, our Consolidated EBITDA and therefore our ability to incur additional debt under such covenant, could be substantially larger when compared to other similarly situated PRC senior notes issuers whose covenant does not typically include such unrealized gains in the calculation of their Consolidated EBITDA. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, we may not generate sufficient cash flow for these purposes. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

Certain of our other financing arrangements also impose operating and financial restrictions on our business. See "Description of Other Material Indebtedness." Such restrictions in our other financing arrangements may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities, obtain future financing, fund required capital expenditures, or withstand a continuing or future downturn in our business. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Bonds and other debt.

Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries

As a holding company, we depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Bonds. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, restrictions contained in the financing facilities entered into by our subsidiaries and applicable laws. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to us to make payments on the Bonds. These restrictions could reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Bonds.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends by the board of directors. In addition, starting from January 1, 2008, dividends paid by our PRC subsidiaries to their non-PRC parent companies will be subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated, which specifically exempts or reduces such withholding tax. Pursuant to a double tax treaty between Hong Kong and the PRC, if the non-PRC parent company is a Hong Kong resident and directly holds a 25% or more interest in the PRC enterprise, such withholding tax rate may be lowered to 5%. However, according to a Circular of the PRC State Administration of Taxation dated October 27, 2009, tax treaty benefits will be denied to "conduit" or shell companies without substantive business activities. As a result of such limitations, there could be timing limitations on payments from our PRC subsidiaries to meet payments required by the Bonds, and there could be restrictions on payments required to redeem the Bonds at maturity or as required for any early redemption.

Furthermore, in practice, the market interest rate that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The interest rates on shareholders' loans paid by our subsidiaries, therefore, are likely to be lower than the interest rate for the Bonds. Our PRC subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a Hong Kong resident, subject to approval by local tax authorities) withholding tax on our behalf on the interest paid under any shareholders' loans. PRC regulations require our non-PRC subsidiaries making shareholder loans in foreign currencies to our PRC subsidiaries to be registered with the SAFE. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries must present evidence of payment of the withholding tax on the interest payable on any such shareholder loan and evidence of registration with the SAFE, as well as any other documents that the relevant bank may require.

As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our obligations under the Bonds.

We may be subject to risks presented by fluctuations in exchange rates between the Renminbi and other currencies, particularly the U.S. dollar

The Bonds are denominated in U.S. dollars, while substantially all of our revenue are generated by our PRC operating subsidiaries and are denominated in Renminbi. Pursuant to reforms of the exchange rate system announced by the PBOC on July 21, 2005, Renminbi- to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. Further, from May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0% on April 16, 2012 and 2.0% on March 17, 2014. Since August 11, 2015, PBOC requires market makers to quote on a daily basis their central parity rates for Renminbi against the U.S. dollar to the China Foreign Exchange Trade System before the market opens by reference to the closing rate of the PRC inter-bank foreign exchange market on the previous trading day in conjunction with the demand and supply conditions in the foreign exchange markets and exchange rate movements of major currencies. The mid-point price of Renminbi to the U.S. dollar depreciated by approximately 4.71% from August 10, 2015 to August 27, 2015 and continued to depreciate with fluctuations since April 2016. In addition, the PBOC has further authorized the China Foreign Exchange Trade System to announce its central parity rate for Renminbi against the U.S. dollar through a weighted averaging of the quotes from the market makers after removing the highest quote and the lowest quote. The International Monetary Fund announced on September 30, 2016 that the Renminbi joins its Special Drawing Rights currency basket. Such change and additional future changes may increase the volatility in the trading value of the Renminbi against foreign currencies. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented and resulted in devaluation of the Renminbi against the U.S. dollar, our financial condition and results of operations could be adversely affected because of our substantial U.S. dollar denominated indebtedness and other obligations. Such a devaluation could also adversely affect the value, translated or converted into U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Bonds.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. In addition, following the issuance of the Bonds, we may enter into foreign exchange or interest rate hedging agreements in respect of our U.S. dollar-denominated liabilities under the Bonds. These hedging agreements may require us to pledge or transfer cash and other collateral to secure our obligations under the agreements, and the amount of collateral required may increase as a result of mark-to-market adjustments. If we were unable to provide such collateral, it could constitute a default under such agreements.

Any hedging obligation entered into or to be entered into by us or our subsidiaries, may contain terms and conditions that may result in the early termination, in whole or in part, of such hedging obligation upon the occurrence of certain termination or analogous events or conditions (howsoever described), including such events relating to us and/or any of our subsidiaries, and the terms and conditions of such hedging obligation(s) may provide that, in respect of any such early termination, limited or no payments may be due and payable to, or that certain payments may be due and payable by, us and/or any of our subsidiaries (as relevant) in respect of any such early termination. Any such early termination, in whole or in part, of any such hedging obligation(s), and the payment and any other consequences and effects of such early termination(s), may be material to our financial condition and/or any of our subsidiaries and may be material in relation to the performance of our or their respective obligations under or in relation to the Bonds (if applicable), any indebtedness or any other present or future obligations and commitments.

We may not be able to repurchase the Bonds upon a Change of Control

Upon the occurrence of a Change of Control (as defined in Condition 6(c) of the Terms and Conditions of the Bonds), the holder of each Note will have the option to require us to redeem all or some of the holder's Bonds at a purchase price equal to 101 per cent. of the principal amount plus accrued and unpaid interest. See "Terms and Conditions of the Bonds."

The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have enough available funds at the time of the occurrence of any change of control triggering event to make purchases of the outstanding Bonds. Our failure to make the offer to purchase or to purchase the outstanding Bonds would constitute an event of default under the Bonds. The event of default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Bonds and repay the debt.

In addition, the definition of Change of Control for purposes of the Trust Deed governing the Bonds does not necessarily afford protection for the holders of the Bonds in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations, although these types of transactions could increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of change of control triggering event for purposes of the Trust Deed governing the Bonds also includes a phrase relating to the sale of "all or substantially all" of our assets. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the Bonds, and the ability of a holder of the Bonds to require us to purchase its Bonds pursuant to the offer as a result of a highly-leveraged transaction or a sale of less than all of our assets may be uncertain.

We may be able to redeem the Bonds in whole in the event we are required to pay additional amounts because we are treated as a PRC "resident enterprise"

As described under Conditions 6(b) of the Terms and Conditions of Bonds, in the event we are required to pay additional amounts as a result of future changes in existing tax law, or changes to existing official interpretations thereof, and such change results in our being required to withhold tax on interest payments as a result of our being treated as a PRC "resident enterprise," we may redeem the Bonds in whole at a redemption price equal to 100 per cent. of the principal amount plus accrued and unpaid interest.

We may be unable to obtain and remit foreign exchange

Our ability to satisfy our obligations under the Bonds depends solely upon the ability of our subsidiaries in the PRC to obtain and remit sufficient foreign currency to pay dividends to us and to repay shareholder loans. Our PRC subsidiaries must present certain documents to the SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with the SAFE). Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 10% (or 7% if the interest is paid to a Hong Kong resident, subject to approval by local tax authorities) withholding tax on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay us dividends or interest and principal on our existing shareholder loans, which may affect our ability to satisfy our obligations under the Bonds.

If we are unable to comply with the restrictions and covenants in our debt agreements or the Trust Deed, there could be a default under the terms of these agreements or the Trust Deed, which could cause repayment of our debt to be accelerated

If we are unable to comply with the restrictions and covenants in the Trust Deed governing the Bonds, or our current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the Trust Deed, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of debt, including the Bonds, or result in a default under our other debt agreements, including the Trust Deed. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

Our operations are restricted by the terms of the Bonds and other debt agreements, which could limit our ability to plan for or to react to market conditions or meet our capital needs, which could increase your credit risk

The Trust Deed and other debt agreements include a number of significant restrictive covenants. These covenants restrict, among other things, our ability to:

- incur additional indebtedness and issue preferred stock;
- make restricted payments;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends and transfer assets or make inter-company loans;
- issue or sell capital stock of Restricted Subsidiaries;
- permit any Restricted Subsidiary to guarantee any indebtedness of the Issuer
- enter into transactions with shareholders or affiliates;
- create liens;
- enter into sale and leaseback transactions;
- sell assets;
- effect a consolidation or merger; or
- engage in different business activities.

These covenants could limit our ability to plan for or react to market conditions or to meet our capital needs. Our ability to comply with these covenants may be affected by events beyond our control, and we may have to curtail some of our operations and growth plans to maintain compliance.

The terms of the Bonds permit us to make investments in unrestricted subsidiaries and minority owned joint ventures

In light of land prices, sizes of projects and other factors, we may from time to time consider developing property projects jointly with other PRC property developers or other strategic investors. As a result, we may need to make investments in joint ventures (including joint ventures in which we may own less than a 50% equity interest) and such joint ventures may or may not be our Restricted Subsidiaries. Although the Terms and Conditions of the Bonds restrict us and our Restricted Subsidiaries from making investments in Unrestricted Subsidiaries or minority joint ventures, these restrictions are subject to important exceptions and qualifications.

The insolvency laws of Bermuda and other local insolvency laws may differ from those of jurisdictions with which you are familiar

Because we are incorporated under the laws of Bermuda, an insolvency proceeding relating to us, regardless of where they are brought, would likely involve Bermuda insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of bankruptcy laws in other jurisdictions.

A trading market for the Bonds may not develop, and there are restrictions on resale of the Bonds

The Bonds are a new issue of securities for which there is currently no trading market. Although approval in-principle has been received from the SGX-ST for the listing and quotation of the Bonds on the SGX-ST, we cannot assure you that we will obtain or be able to maintain a listing on the SGX-ST, or that if listed, a liquid trading market will develop. In addition, the Bonds are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Bonds in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. We cannot predict whether an active trading market for the Bonds will develop or be sustained.

The Trustee may request holders of the Bonds to provide an indemnity and/or security and/or pre-funding to its satisfaction

Where the Trustee is under the provisions of the Trust Deed and the Account Bank Agreement bound to act at the request or direction of the Bondholders, the Trustee shall nevertheless not be so bound unless first indemnified and/or provided with security and/or pre-funded to its satisfaction against all actions, proceedings, claims and demands to which it may render itself liable and all costs, charges, damages, expenses and liabilities which it may incur by so doing. Negotiating and agreeing to an indemnity and/or security and/or pre-funding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or pre-funding, in breach of the terms of the Trust Deed or the Terms and Conditions and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the holders of the Bonds to take such actions directly.

The liquidity and price of the Bonds following the issuance may be volatile

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in our revenue, earnings and cash flows and proposals for new investments, strategic alliances and/or acquisitions, interest rates, fluctuations in price for comparable companies and government regulations and changes thereof applicable to our industry and general economic conditions nationally or internationally could cause the price of the Bonds to change. Any such developments may result in large and sudden changes in the trading volume and price of the Bonds. We cannot assure you that these developments will not occur in the future.

There may be less publicly available information about us than is available in certain other jurisdictions

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, the financial information in this information memorandum has been prepared in accordance with HKICPA, which differ in certain respects from generally accepted accounting principles in other jurisdictions, or other GAAPs, which might be material to the financial information contained in this information memorandum. We have not prepared a reconciliation of our consolidated financial statements and related footnotes between HKICPA and other GAAPs. In making an investment decision, you must rely upon your own examination of us, the terms of the issuance and our financial information. You should consult your own professional advisors for an understanding of the differences between HKICPA and other GAAPs and how those differences might affect the financial information contained in this information memorandum.

We will follow the applicable corporate disclosure standards for debt securities listed on the SGX-ST and such standards may be different from those applicable to debt securities listed in certain other countries

For so long as the Bonds are listed on the SGX-ST, we will be subject to continuing listing obligations in respect of the Bonds. The disclosure standards imposed by the SGX-ST may be different from those imposed by securities exchanges in other countries or regions such as the United States. As a result, the level of information that is available may not correspond to what investors in the Bonds are accustomed to.

The Bonds will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies

The Bonds will initially only be issued in global certificated form and held through Euroclear, Clearstream. Interests in the global bonds representing the Bonds will trade in book-entry form only, and bonds in definitive registered form will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the Bonds. The nominee of the common depositary for Euroclear and Clearstream will be the sole registered holder of the global certificate representing the Bonds. Payments of principal, interest and other amounts owing on or in respect of the global certificate representing the Bonds will be made to the paying agent, which will make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to accounts of participants that hold book-entry interests in the global certificate representing the Bonds and credited by such participants to indirect participants. After payment to the nominee of the common depositary for Euroclear and Clearstream, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of Euroclear and Clearstream or, if you are not a participant in Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of Bondholder under the Trust Deed.

Unlike the holders of the Bonds themselves, owners of book-entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from Bondholders. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

Similarly, upon the occurrence of an Event of Default under the Trust Deed, unless and until definitive registered bonds are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Bonds.

Certain facts and statistics in this information memorandum are derived from publications not independently verified by us or our advisors

Facts and statistics in this information memorandum relating to China's economy and the real estate industry are derived from publicly available sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us or our advisors, and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective calculation and collection methods and other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

USE OF PROCEEDS

The gross proceeds from this issuance of the Bonds will be approximately US$30.0 million, which we plan to use for repayment of existing loans and working capital purposes.

We may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of the proceeds.

EXCHANGE RATE INFORMATION

CHINA

PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set daily by PBOC on the basis of the previous day's inter-bank foreign exchange market rates and then current exchange rates in the world financial markets. During this period, the official exchange rate for the conversion of Renminbi to U.S. dollars remained generally stable. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loan principals and securities trading, still requires the approval of SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system.

On May 18, 2007, PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by PBOC. The floating band was further widened to 1.0% on April 16, 2012 and 2.0% on March 17, 2014. Effective since August 11, 2015, market makers are required to quote their central parity rates for Renminbi against U.S. dollar to the China Foreign Exchange Trade System daily before the market opens by reference to the closing rate of the PRC inter-bank foreign exchange market on the previous trading day in conjunction with the demand and supply conditions in the foreign exchange markets and exchange rate movements of major currencies. PBOC has further authorized the China Foreign Exchange Trade System to announce its central parity rate for Renminbi against the U.S. dollar through a weighted averaging of the quotes from the market makers after removing the highest quote and the lowest quote. PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for trading against the Renminbi on the following working day. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon buying rate			
Period	**Low**	**Average[(1)]**	**High**	**Period end**
	(RMB per US$1.00)			
2013	6.0537	6.1412	6.2438	6.0537
2014	6.0402	6.1704	6.2591	6.2046
2015	6.1870	6.2869	6.4896	6.4778
2016	6.4480	6.6400	6.9580	6.9430
2017	6.4773	6.7350	6.9575	6.5063
2018				
February	6.2969	6.3183	6.3471	6.2649
March	6.2685	6.3174	6.3565	6.2685
April	6.2655	6.2967	6.3340	6.3325
May	6.3325	6.3701	6.4175	6.4096
June	6.3850	6.4651	6.6235	6.6171
July	6.6123	6.7164	6.8102	6.8038

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

HONG KONG

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since October 17, 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.80 to US$1.00. The Basic Law of Hong Kong (the "Basic Law"), which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK$7.80 to US$1.00. In May 2005, the Hong Kong Monetary Authority broadened the 22-year-old trading band from the original rate of HK$7.80 per U.S. dollar to a rate range of HK$7.75 to HK$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the link within that rate range. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong government will maintain the link within the current rate range or at all.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon buying rate			
Period	**Low**	**Average[(1)]**	**High**	**Period end**
	(HK$ per US$1.00)			
2013	7.7503	7.7565	7.7654	7.7539
2014	7.7495	7.7554	7.7669	7.7531
2015	7.7495	7.7519	7.7686	7.7507
2016	7.7505	7.7620	7.8270	7.7534
2017	7.7540	7.7950	7.8267	7.8128
2018				
February	7.8183	7.8222	7.8267	7.8262
March	7.8275	7.8413	7.8486	7.8484
April	7.8432	7.8482	7.8499	7.8479
May	7.8439	7.8487	7.8499	7.8439
June	7.8452	7.8471	7.8492	7.8463
July	7.8439	7.8477	7.8493	7.8484

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our consolidated cash and cash equivalents, short-term debt and capitalization as of December 31, 2017 on an actual basis and on an adjusted basis after giving effect to the issuance of the Bonds without deducting estimated expenses payable by us in connection with this issuance of the Bonds. The following table should be read in conjunction with our consolidated financial information and related notes included elsewhere in this information memorandum.

	As of December 31, 2017			
	Actual		As adjusted	
	RMB	US$	RMB	US$
		(unaudited)	(unaudited)	(unaudited)
	(in thousands)			
Cash and cash equivalents[1]	3,540,310	544,136	3,735,501	574,136
Short-term borrowings				
Borrowings – due within one year	1,171,198	180,010	1,171,199	180,010
Bonds to be issued	–	–	195,189	30,000
Total short-term borrowings	1,171,198	180,010	1,366,388	210,010
Long-term borrowings[2]				
Borrowings – due after one year	3,104,096	477,091	3,104,096	477,091
Derivative financial liabilities	12,333	1,896	12,333	1,896
Total long-term borrowings	3,116,429	478,987	3,116,429	478,987
Total equity	2,378,627	365,588	2,378,627	365,588
Total capitalization[3]	5,495,056	844,575	5,495,056	844,575

Notes:

(1) Cash and cash equivalents include pledged deposits of RMB456.5 million (US70.2 million) and short-term investments of RMB100.0 million (US15.4 million).

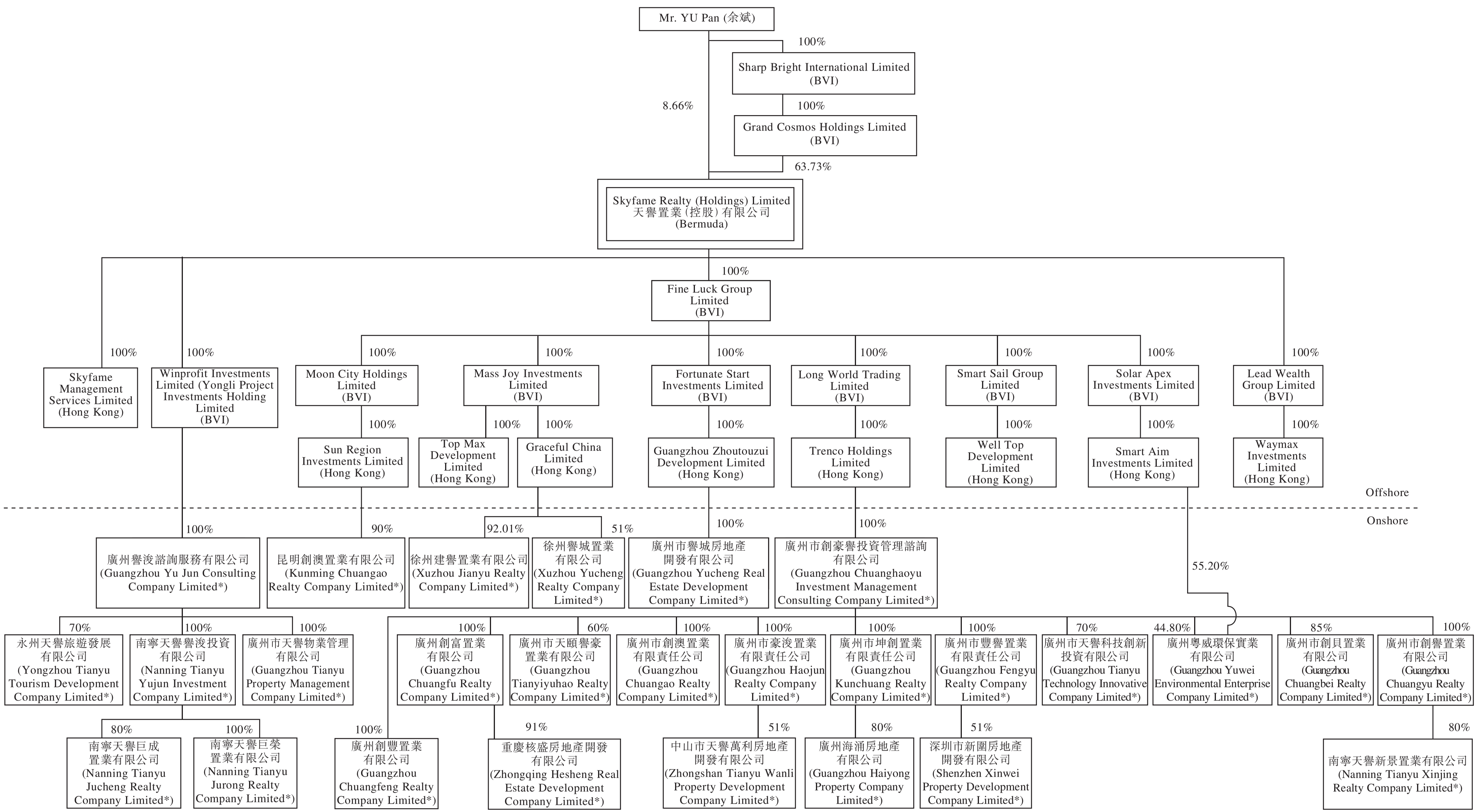
(2) Subsequent to December 31, 2017, we have, in the ordinary course of business, entered into additional financing arrangements or placing agreements to finance our property developments and for general corporate purposes. These additional borrowings are not reflected in the table above. See "Description of Other Material Indebtedness."

(3) Total capitalization includes total long-term borrowings plus total equity.

Except as otherwise disclosed in this information memorandum, there has been no material adverse change in our indebtedness or capitalization since December 31, 2017.

CORPORATE STRUCTURE

The following chart sets forth our simplified corporate structure, including principal and operating subsidiaries only, as of the date of this information memorandum:



Issuer of the Bonds

* *For identification purpose only*

We are a real estate developer focusing on high-end commercial and residential properties in China and specializing in the development of properties for young communities. We are headquartered in Guangzhou, Guangdong province, China and have property development projects in a number of cities in the Greater Bay Area, the Southwestern Region and Huaihai Economic Zone of China, covering Shenzhen, Guangzhou, Zhongshan, Nanning, Chongqing and Xuzhou. We have three business segments, namely, property development, property investment and property management. In recent years, we have primarily been developing sizable development projects to suit the needs of young buyers who seek to live in relatively small-size but convenient homes. We have developed tailor-made facilities to satisfy the needs of young population in their daily living, leisure, recreational, medical care and startup business development in the premises built by us. We were ranked 177th and 192nd nation-wide among the "2017 China Real Estate Enterprises Top 200" by contracted sales area and amount, respectively, published by the CRIC Research Center.

As of December 31, 2017, we had a total of 13 property projects at various stages of development (including completed projects, projects under development and projects held for future development), which were located in seven cities with a total site area of approximately 1,205,000 sq.m. and an aggregate actual/planned GFA of approximately 5,700,000 sq.m. As of the same date, we had a land bank of approximately 4,223,000 sq.m. of GFA, consisting of approximately 394,000 sq.m. of GFA available for sale of completed properties, approximately 2,554,000 sq.m. of planned GFA under development and 1,275,000 sq.m. of estimated GFA of projects held for future development. As of December 31, 2017, we delivered completed saleable GFA of approximately 1,265,000 sq.m. to our customers.

We have received a number of awards and recognitions for our property projects and business operations. In 2017, our Nanning Skyfame City project was ranked 90th among the "2017 Real Estate Project Top 100 by Contracted Sales Amount" published by CRIC Research Center. In the same year, we received the awards of "2017 Guangxi International Real Estate Brand – Skyfame Realty" from Nanning Evening News and Guangxi Radio FM950. Our Nanning Skyfame City project won the "2017 Guangxi Real Estate Energy Awards – Super High Rise City of Quality Metropolis" from Nanning Evening News and Guangxi Radio FM950, "2017 Most Popular Property of the Friends of Residence Award" from Guangxi Real Estate Festival Committee and Friends of Residence Network, "Guangxi Golden Brick Award – 2017 Regional Model Property" from Guangxi Daily Media Group, Southern Morning Post and Home Weekly and "Regional Signature Property Headline Award" from Headline Daily. Our project company, Nanning Tianyu Jucheng Realty Company Limited, won the "Guangxi Golden Brick Award – 2017 Guangxi Real Estate City Motivating and Contributing Award" from Guangxi Daily Media Group, Southern Morning Post and Home Weekly. Our Guangzhou Skyfame Byland project received the award of "2017 China Real Estate Championship – the Ultimate City Benchmarking Luxurious Residence" from Netease Real Estate, Guangdong Real Estate Chamber of Commerce and China Real Estate Championship Judging Committee. Our "Community of Mr. Fish" of Xuzhou Skyfame Time City project won the "2017 Xuzhou Most Influential Property Award" from Fang.com and was also recognized as the "Best Selling Property" by Xuzhou Station of Tencent Real Property. In 2016, we were recognized as one of the "Top

20 All-Around Property Developers in Guangxi" and "Top Five Fast Growing Property Developers in Guangxi" for the 2016 Guangxi Top 50 Real Estate Property Award by CRIC China Real Estate, Guangxi Science and Education Channel and Guangxi Radio FM930. We also received the four-star property service project award for our Tianyu-Huafu Property Management project in 2016 and our Guangzhou Skyfame Byland Project was awarded "China Real Estate and Home Design Championship for Luxurious Housing" in 2016 from Netease Home and Guangdong Real Estate Committee.

In 2015, 2016 and 2017, our revenue was RMB306.3 million, RMB1,508.0 million and RMB4,080.5 million (US$627.2 million), respectively. We recorded loss attributable to owners of RMB211.8 million in 2015, and we recorded profit attributable to owners of RMB92.9 million and RMB550.5 million (US$84.6 million), in 2016 and 2017, respectively.

COMPETITIVE STRENGTHS

Property development portfolio strategically located across some of the high growth regions or cities in China

We focus our business activities on some of the high growth regions or cities in China, such as Guangzhou, Shenzhen and Zhongshan in the Greater Bay Area, Nanning and Chongqing in the Southwestern Region and Xuzhou in the Huaihai Economic Zone of China. These cities have experienced relatively strong economic growth that supports strong demand for housing in the past few years. As of December 31, 2017, excluding projects for which we had not obtained the land use rights for the developments, and our recently acquired Chongqing Project, our planned GFA under development and held for future development in each of Guangzhou, Shenzhen, Zhongshan, Nanning and Xuzhou was approximately 233,000 sq.m., 142,000 sq.m., 105,000 sq.m., 2,728,000 sq.m. and 621,000 sq.m., respectively. We believe that we have established a relatively strong presence in these strategically selected markets, and that we are well positioned to further capture the growing demand for properties by customers in such markets.

Specialize in project developments of sizable scale catering for young population

In 2016, we built our pilot project in Nanning that is specially designed to suit the needs of young home buyers. This product, strategically named as "Youth Community Project", provide tailor-made facilities and business operations to serve the basic living needs, and all-round essences in entertainment, education and medical care of the occupants. We offer high-end residential units that are priced at affordable levels to young buyers. In each of the youth communities, we provide co-working spaces to home buyers for their development of startup or small businesses. We also provide financial support, through an investment fund, to selected start-up entrepreneurs who have business potential.

As of December 31, 2017, we had four projects under development in an aggregate GFA of approximately 3,030,000 sq.m. in Nanning, Xuzhou and Guangzhou, which are the models of our youth community projects. Our sizable pilot project in our Nanning Skyfame Garden Project, in which 9,000 households situate, is a project with an aggregate GFA of 1.2 million sq.m. consisting of a 5,000 sq.m. co-work place and street front shops of 84,000 sq.m. for start-up business, and is expected to be fully delivered to customers in by the first quarter of 2019. The other youth community project in our Nanning ASEAN Maker Town Project comprising a shopping mall operated by service providers in education and health care is scheduled to open in 2019 and will serve 8,800 households living in the community with a total GFA of 1.4 million sq.m. Our first youth community project in Xuzhou of Jiangsu Province, namely, Xuzhou Time City Project, has a total GFA of 430,000 sq.m., with the capacity to accommodate 4,800 households. Xuzhou Times City Project also offers retail and commercial spaces in an aggregated GFA of 20,000 sq.m., which will be used mainly as co-working spaces and community related businesses. Our Guangzhou Skyfame Byland Project occupies a site area of 43,609 sq.m. This project has approximately 209,000 sq.m. GFA of completed properties, approximately 111,000 sq.m. GFA under development and 9,600 sq.m. planned GFA held for lease. We also work with professional property management teams to provide community related services to our customers. The youth community projects not only bring in strong property sales and cash flows, but also provide us with a growing and sustainable stream of income from the provision of community service and investments in start-up business.

Recognized brand name with quality products

We believe we have established a strong brand name in the strategically selected markets in which we operate. We have focused our property development efforts on developing high-end commercial and residential properties and providing property management services that cater to the needs of our targeted customers. Our projects, to name a few, such as Guangzhou Westin Hotel and the luxurious residences at Guangzhou Skyfame Byland, have been recognized in the local markets for their distinctive design which in turn could help to raise the sales value of the property. We have worked closely with leading international and domestic designers and maintain an in-house design team to ensure that our brand image is associated with high quality and value. Our in-house design team will delegate its efforts to work closely with outsourced design houses from conceptual to detailed design plans to ensure that we could continue to maintain and elevate our brand image and name.

Experienced management team and strong risk management capabilities

Members of our management team have an entrepreneurial spirit, extensive operational expertise and an in-depth knowledge of, and experience in, China's real estate industry. Our board of directors and senior management members, have an average of more than 23 years of experience in the real estate industry. Mr. YU Pan, our Chairman and Chief Executive Officer, has 28 years of experience in real estate industries. In addition, we rely on valuable guidance provided by our non-executive Directors, each of whom brings along a wealth of experience in fields such as banking, legal and corporate finance. We believe the leadership, vision, management experience and the proven track record of our management team has been and will continue to be instrumental in driving our success.

We believe we have an established, transparent and sound corporate governance system underpinning our business development. In addition to our Audit Committee, Remuneration Committee and Nomination Committee, we also established a Risk Management Committee in late 2015 to formulate policies to specifically identify risks and develop procedures to counter such risks. For more details on the Risk Management Committee, see "Directors and Senior Management – Risk Management Committee."

BUSINESS STRATEGY

We plan to expand our business operations as a developer specializing in a market segment of business potentials. Development of youth communities is our core business strategy for reaching this goal. Our mission is to develop properties that serve the needs of the young population.

To achieve our goal, we intend to implement the following business strategies:

Continue to expand in the fast-growing economic regions or cities in China

We plan to continue to concentrate the growth of our business in cities exhibiting with sound economic growth or their nearby regions with good accessibility, large young population and supportive governmental policies in startup business development that fit with our land selection criteria for the development of youth communities. We will continue to strengthen our presence in the cities in the Greater Bay Area, the Southwestern Region and the Huaihai Economic Zone of China.

Continue our development of Youth Community Projects

We will continue to place our attention to further bolster brand image as a high-end property developer by executing our strategies in the development of the unique product – the youth community projects. With the successful experience in our pilot youth community project in Nanning, we will give priority in our future development in building high-quality residential properties tailor-made for young home buyers. Our management team is well equipped to enhance our corporate image as a developer with focus in this market segment. With our increased participation in the development of youth community projects in the coming years, we anticipate that this new business line will become the key driver for income and earning of the Group.

Continue to promote our brand name

We place significant emphasis on developing our brand image and will continue to introduce real estate projects and service offerings that will enhance our profile, reputation and image. In many of our projects, we have outsourced the design work to leading international design firms, such as Skidmore, Owings & Merrill LLP, HBA and AECOM and domestic design firms to create products that reflect the spirit and essence of our vision and assimilate the latest or marketable trends and elements. Our in-house design team worked closely with and monitored the work of these outsourced design houses. We will continue to do so in the future.

In addition, by exercising standard procedures for material procurement and contractors engagement, we place great emphasis on quality control and closely monitor our product quality and the workmanship of our contractors throughout the development process. We also actively participate in the selection of materials used in our projects in order to ensure desired quality levels are met and to maintain a cohesive brand image for our properties.

RECENT DEVELOPMENTS

Interim Results Announcement

The Interim Results Announcement shall be deemed to be incorporated into and form part of this information memorandum.

Acquisition of Chongqing Project

Chongqing Project has a total GFA of 1,179,000 sq.m., including residential properties and serviced apartments of 717,000 sq.m., offices and retail units of 124,000 sq.m., car-parking spaces of 321,000 sq.m. and municipal and other facilities of 16,000 sq.m. Chongqing Project is held by Chongqing Hesheng Real Estate Development Company Limited (重慶核盛房地產開發有限公司) ("CQ Hesheng Real Estate") and is expected to complete in 2021. On January 7, 2018, our wholly-owned subsidiary, Guangzhou Chuangfu Realty Company Limited (廣州創富置業有限公司) ("GZ Chuangfu"), entered into an equity transfer agreement (the "CQ Shengdiya Agreement") with Chongqing Shengdiya Property (Group) Company Limited (重慶盛迪亞產業(集團)有限公司) ("CQ Shengdiya"), pursuant to which we shall acquire 20% equity interest of CQ Hesheng Real Estate at a consideration of RMB0.16 billion. As of the date of this information memorandum, the transfer of 12% equity interest in CQ Hesheng Real Estate held by CQ Shengdiya has been completed. The remaining 8% equity interest of CQ Hesheng Real Estate held by CQ Shengdiya is yet to be transferred. On January 25, 2018, GZ Chuangfu entered into a framework agreement with Zhonghe Real Estate Development Company Limited (中核房地產開發有限公司) ("ZH Real Estate"), pursuant to which GZ Chuangfu shall acquire the remaining 80% equity interest of CQ Hesheng Real Estate with an estimated consideration of approximately RMB4.68 billion, conditional upon the successful bidding of the 80% equity interest in the listing-for-sale process. On March 13, 2018, following the successful bidding of 79% equity interest of CQ Hesheng Real Estate, GZ Chuangfu and ZH Real Estate entered into a definitive equity transfer agreement for such equity interest. As of the date of this information memorandum, the transfers of 79% equity interest in CQ Hesheng Real Estate held by ZH Real Estate has been completed. The remaining 1% equity interest of CQ Hesheng Real Estate held by ZH Real Estate is yet to be listed for sale.

Apastron MTB Programme

On February 28, 2018, we increased the size of the Apastron MTB Programme from HK$1.5 billion to HK$2.5 billion. Since December 31, 2017 up to the date of this information memorandum, a total principal amount of HK$0.66 billion (US$0.08 billion) of the Apastron Medium Term Bonds has been issued and are outstanding. As of the date of this information memorandum, a total principal amount HK$1.89 billion (US$0.24 billion) is outstanding under the Apastron Medium Term Bonds. We may no longer take down under the Apastron MTB Programme as the issuance period of the programme expired on June 16, 2018. See "Description of Other Material Indebtedness – Offshore Financing Agreements – Apastron MTB Programme" for more details.

January 2021 Bonds

On January 10, 2018, we executed a bonds instrument (the "January 2021 Bonds Instrument") pursuant to which we may issue fixed coupon unsecured and unsubordinated bonds in the principal amount of up to HK$300.0 million (US$38.4 million) due on the day immediately preceding the third anniversary of the issue date of the bonds (the "January 2021 Bonds"). As of the date of this information memorandum, an aggregate principal amount of HK$172.8 million (US$22.1 million) of the January 2021 Bonds has been issued and remains outstanding. See "Description of Other Material Indebtedness – January 2021 Bonds" for more details.

OUR BUSINESS SEGMENTS

We broadly classify our businesses into three business segments, including: (i) property development, (ii) property investment and (iii) property management. For the property development segment, we develop and sell property projects to customers. For the property investment segment, we mainly lease properties owned by us. For the property management segment, we provide property management services to properties developed by us and by third parties. The development and operation of youth community is becoming an important business model of our operation. Following the opening of the commercial premises in our youth community projects in Nanning in 2016, we will continue to provide co-working places and community related services to our customers, tenants and other occupants. We principally conduct businesses through our PRC subsidiaries.

The table below sets forth the breakdown of revenue by our business segments, each expressed as an absolute amount and as a percentage of our total revenue, for the periods indicated. The operations of youth community projects has not generated significant operating results, assets or liabilities to our Group.

	For the year ended December 31,						
	2015		2016		2017		
	RMB'000	%	RMB'000	%	RMB'000	US$'000	%
Property development	269,427	88.0	1,471,330	97.6	4,042,763	621,361	99.1
Property investment	18,244	6.0	16,514	1.1	17,609	2,706	0.4
Property management	18,650	6.0	20,127	1.3	20,142	3,096	0.5
Total	**306,321**	**100.0**	**1,507,971**	**100.0**	**4,080,514**	**627,163**	**100.0**

OUR PROPERTY DEVELOPMENT PROJECTS

Overview

As of December 31, 2017, we had 13 property development projects at various stages of development. Based on the stage of development, we divide our property development projects into three categories:

- Completed projects, comprising properties for which we have received the requisite completion inspection report from the relevant government construction authority (including completed properties that have been sold);

- Projects under development, comprising properties for which we have obtained the requisite construction works commencement permits but are yet to receive the requisite completion inspection report; and

- Projects held for future development, comprising properties for which we have obtained the relevant land use rights certificates and started preliminary design work but have not yet received the required constructions works commencement permits, as well as properties for which we have not obtained the land use rights certificates but have entered into contractual land grant contracts or agreements to acquire equity interests of project companies holding the land use rights, to obtain the relevant land use rights certificates and started preliminary design work.

The above classification of properties reflects the basis on which we operate our business and may differ from classifications employed for other purposes or by other developers. In general, it takes us approximately three years to construct a building or a building complex. Depending on the size of a development and other factors, however, the entire development period may last substantially longer. We also adjust the pace of our property developments to monitor selling prices, sales volume and the level of our land reserves. As a result, we may obtain multiple sets of governmental approvals and permits, including land use rights certificates from the relevant authorities for a group of property developments that we view as a single property development for business purposes.

The table below sets forth the GFA information of our 13 projects as of December 31, 2017. Many of our property developments consist of more than one parcel of land and require multiple land use rights certificates during the course of these property developments. Where our application for the land use rights certificate in respect of a parcel of land is still pending and we have not paid the land premium in full, we do not assign any value to the land and the properties on such land for the purpose of this information memorandum. Our GFA information in this information memorandum is based on our internal records. Information about our site area, estimated GFA, construction costs in this information memorandum is based on the information on the land use rights certificates and construction permits or, if land use rights certificates are not available, based on our land grant contracts or land use rights transfer agreements.

The table below is a summary of portfolio of our property development projects as of December 31, 2017:

Project	Site area	Actual/ Estimated construction commencement date	Actual/ Estimated presale commencement date	Actual/ Estimated construction completion date	Development costs incurred *(RMB'M)*	Estimated future development costs to be incurred *(RMB'M)*	Group's beneficial interest	COMPLETED: Total GFA	COMPLETED: Total saleable GFA [(1)]	COMPLETED: Saleable GFA remaining unsold	UNDER DEVELOPMENT: Planned total GFA under development	UNDER DEVELOPMENT: Planned total saleable GFA [(1)]	UNDER DEVELOPMENT: Accumulated saleable GFA contracted but not delivered	UNDER DEVELOPMENT: Leasable GFA	HELD FOR FUTURE DEVELOPMENT: Estimated total GFA	HELD FOR FUTURE DEVELOPMENT: Estimated GFA without land use rights certificates
(A) Completed Projects																
Westin Project (The Westin Guangzhou and HNA Tower) (“威斯汀項目(“威斯汀項目 (廣州海航威斯汀酒店及海航大厦)”)	7,672	Apr-2005	May-2006	May-Nov 2007	1,633	–	100%	140,000	140,000	–	–	–	–	–	–	–
Guiyang Skyfame City (“貴陽天譽城”)	156,208	3Q-2008	2Q-2009	Jun-2010-2015	1,716	–	55%	592,000	564,000	–	–	–	–	–	–	–
Yongzhou Tianyu • Huafu (“永州天譽 • 華府項目”) ...	70,950	Jun-2012	Nov-2012	Mar-2014- May-2016	821	–	70%	207,000	181,000	–	–	–	–	–	–	–
Tianhe Project (HNA Huan Cheng Plaza & A-loft Hotel) (“天河項目 (廣州天河雅樂軒酒店及 海航寰城廣場)”	7,217	Jan-2010	N/A	Apr-2016	827	–	100%	112,000	112,000	–	–	–	–	–	–	–
(B) Projects under development																
Guangzhou Skyfame Byland (“廣州天譽半島”)	43,609	Feb-2013	Jan-2015	Jun-2017-2018	4,020	–	100%	209,000	125,000	40,000	111,000	27,000	–	9.600	–	–
Nanning Skyfame Garden (“南寧天譽花園”)	231,563	Aug-2014	Oct-2014	Dec-2016-2018	4,341	238	80%	611,000	537,000	354,000	601,000	408,000	209,000	–	–	–
Skyfame Nanning ASEAN Maker Town (“天譽南寧東盟創客城”)	194,221	Nov-2015	Nov-2016	Jun-2018-2023	2,076	6,205	100%	–	–	–	1,405,000	1,204,000	397,000	_50,000	–	–
Xuzhou Skyfame Time City (“徐州天譽時代城”)	172,764	Mar-2017	Jul-2017	Dec 2018-2020	451	1,072	90%	–	–	–	437,000	402,000	161,000	–	–	–
(C) Projects held for future development																
Zhongshan Project (“中山項目”) [(2)] (Acquired in 2017)	35,389	Sep-2017	Jul-2018	Dec-2019-2020	659	419	51%	–	–	–	–	–	–	–	105.000	105.000
Nanning Yudong Project (“南寧玉洞項目”) [(3)] (Acquired in 2017)...........................	137,881	Apr-2018	Second half of 2018	Dec-2021	285	4,045	40%	–	–	–	–	–	–	–	722,000	722,000
Xuzhou Skyfame Maker Town (“徐州天譽創客小鎮”) [(3)]	73,823	June-2018	Nov-2018	Nov-2020	488	796	92%	–	–	–	–	–	–	–	184,000	–
Shenzhen Dachitdat Project (“深圳大捷達項目”)	23,600	Sep-2018	Apr-2018	Mar-2021	457	1,548	100%	–	–	–	–	–	–	–	142,000	142,000
Guangzhou Luogang Project (“廣州羅岡項目”)	50,263	May-2019-2018	Oct-2019	Jan-2021	106	1,046	100%	–	–	–	–	–	–	–	122,000	–

Notes:

(1) Total saleable GFA and planned total saleable GFA exclude unsaleable area for municipal facilities, saleable GFA allocated to the cooperative partner and resettlement housing to be provided without compensation in certain projects.

(2) The project was acquired in May 2017 which is part and parcel of a land of an existing residential development project. As of December 31, 2017, the management was transferring the land title from the original project company to a subsidiary of our Group.

(3) As of the date of this information memorandum, we have obtained the land use rights certificate for the projects.

Description of Projects

As of December 31, 2017, we had a total of 13 property projects at various stages of development (including completed projects, projects under development and projects held for future development), which were located in seven cities with a total site area of approximately 1,205,000 sq.m. and an aggregate actual/planned GFA of approximately 5,700,000 sq.m. As of the same date, our portfolio of land bank was in aggregate of 3,710,000 sq.m. of saleable GFA, consisting of approximately 394,000 sq.m. of GFA available for sale of completed properties, approximately 2,041,000 sq.m. of saleable GFA under development and 1,275,000 sq.m. of planned GFA of projects held for future development. Up to December 31, 2017, we have delivered completed saleable GFA of approximately 1,265,000 sq.m. to our customers.

The Group has completed the development of projects that include Westin Project (The Westin Guangzhou and HNA Tower) and Tianhe Project (Aloft Guangzhou Tianhe Hotel and HNA Huancheng Plaza) in Tianhe District of Guangzhou, Tianyu City in Guiyang, Guizhou Province and Yongzhou Tianyu • Huafu in Hunan Province.

The following sets out a summarized description of projects under development and held for future development.

Guangzhou Skyfame Byland ("廣州天譽半島")

Guangzhou Skyfame Byland is a residential and commercial property project located in Haizhu District, Guangzhou, Guangdong Province. Opposite to the renowned While Swan Hotel, Skyfame Byland offers a full waterfront view of the Pearl River. Commenced in February 2013, this project occupies a total site area of 43,609 sq.m., consisting of seven towers comprising residential apartments, serviced apartments, offices, car parking facilities and other supporting commercial facilities of a total GFA of approximately 320,000 sq.m. A total saleable GFA of approximately 81,000 sq.m. in towers A4 and A5 and some car parking spaces were handed over to Guangzhou Port Group Co., Limited, an original user of the land for this project, who is entitled to share 28% in the GFA of the project according to the relevant joint venture agreement. The entire project, other than tower A1 which is under interior decoration works, was completed in June 2017. Saleable GFA of approximately 85,000 sq.m. were handed over to buyers in 2017. Contracted sales of RMB810 million made up to December 31, 2017 will be recognized as revenue in 2018 when the relevant properties are handed over. As of December 31, 2017, GFA of approximately 23,000 sq.m. representing 57 residential units in tower A2 and A3, GFA of approximately 9,400 sq.m. in tower A1, and about 1,100 car parking spaces are saleable but uncontracted and 800 car parking spaces are retained by our Group for long-term leasing purpose.

Nanning Skyfame Garden ("南寧天譽花園")

Nanning Skyfame Garden is a residential and commercial property project located in Wuxiang New District, Nanning, Guangxi Province. The project occupies a total site area of 231,563 sq.m and a total GFA of approximately 1,212,000 sq.m. We commenced the project in August 2014. As of December 31, 2017, approximately 611,000 sq.m. of GFA was completed and approximately 601,000 sq. m. of GFA was under development. As of the date of this memorandum, all towers have been roof-topped and 56 residential towers were completed final inspection for delivery. As of December 31, 2017, sales of residential and retail units totaling approximately RMB3.72 billion (total saleable GFA of approximately 578,000 sq.m., representing 92.7% of area on sale) have been contracted. In addition to the commodity properties, aggregated saleable GFA of 245,000 sq.m. are to be delivered to original land occupants for resettlement housing for which sale proceeds totaling RMB0.99 billion have been received from the district government according to the terms of the land transfer. The hand-over of resettlement housing will take place in 2018.

Skyfame Nanning ASEAN Maker Town ("天譽南寧東盟創客城")

Skyfame Nanning ASEAN is a residential and commercial property project located in Wuxiang New District (五象新區), Nanning. This project occupies a total site area of 194,221 sq.m. and is planned to be a complex divided into east and west zones and developed in phases. The east zone consists of A-class offices, retail properties, serviced apartments, retail properties, and ancillary facilities for youngsters named as "the World of Mr. Fish" ("魚先生的世界"), and an international 5-star hotel proposed to be branded as the Westin Nanning in a skyscraper named as the Skyfame ASEAN Tower ("天譽東盟塔") with a planned height of approximately 530 meters, while the west zone consists of residential and retail properties named as "Skyfame Byland" ("天譽半島"). We commenced the construction in November 2015. Construction works of properties in all zones are expected to be completed between 2018 and 2023. As of December 31, 2017, residential and commercial units of saleable GFA of approximately 405,000 sq.m. are on presale, for which sales of approximately RMB4.16 billion (total saleable GFA of approximately 397,000 sq.m.) have been contracted.

Skyfame Nanning ASEAN Maker Town together with Nanning Skyfame Garden project were branded as "Nanning Skyfame City" ("南寧天譽城").

Xuzhou Skyfame Time City ("徐州天譽時代城")

Xuzhou Skyfame Time City is expected to be a residential property project located at the Xuzhou Quanshan Jiangsu Economic Development Zone of Xuzhou, Jiangsu Province. The project occupies a total site area of 172,764 sq.m with an planned GFA of approximately 437,000 sq.m. We commenced the construction in March 2017 with three planned phrases, which are all expected to be completed by 2020. We launched the pre-sale for phrase 1 in July 2017. As of December 31, 2017, residential units of saleable GFA of approximately 193,000 sq.m. are on presale, for which sales of approximately RMB1.01 billion (total saleable GFA of approximately 161,000 sq.m.) have been contracted.

Zhongshan Project ("中山項目")

In May 2017, we entered into an acquisition agreement to acquire 51% equity interest of the project. Zhongshan Project is located on Tsui Sha Road, Zhongshan, Guangdong Province and expected to be comprised of residential and commercial properties. This project is expected to occupy a site area of approximately 35,389 sq.m. with a planned aggregate GFA of approximately 105,000 sq.m. As of December 31, 2017, we had not obtained the land use rights certificate for this project. The management was in the final stage of transferring the land title from the original project company to a subsidiary of the Group. We plan to launch the first phase of pre-sale in the first half of 2018.

Nanning Yudong Project ("南寧玉洞項目")

The Group entered into a joint venture arrangement with two local developers and holds 40% equity interest in the joint venture company. The land was newly acquired by the joint venture company through public auction in December 2017. The project is located in the core area of Wuxiang New Zone at the north of Yudong Avenue (玉洞大道) in Liangqing District, Nanning. The project is expected to occupy a site area of approximately 137,800 sq.m. with a planned GFA of approximately 764,000 sq.m. In June 2018, we obtained the land use rights certificate for this project.

Xuzhou Skyfame Maker Town ("徐州天譽創客小鎮")

Xuzhou Skyfame Maker Town is expected to be a residential and commercial property project located in Xuzhou. The project occupies a total site area of 73,823 sq.m. We entered into the relevant land grant contract in June 2017 and had paid the total land premium of RMB470.0 million in full. The total planned GFA is approximately 184,000 sq.m. The project, named "Impression of Sandalwood House" ("檀府•印象"), includes residential and commercial properties for sale, properties for resettlement of original occupants, primary school and municipal facilities. Construction works are expected to be completed in phases by 2020. In October 2017, we obtained the land use rights certificate for this project.

Shenzhen Dachitdat Project ("深圳大捷達項目")

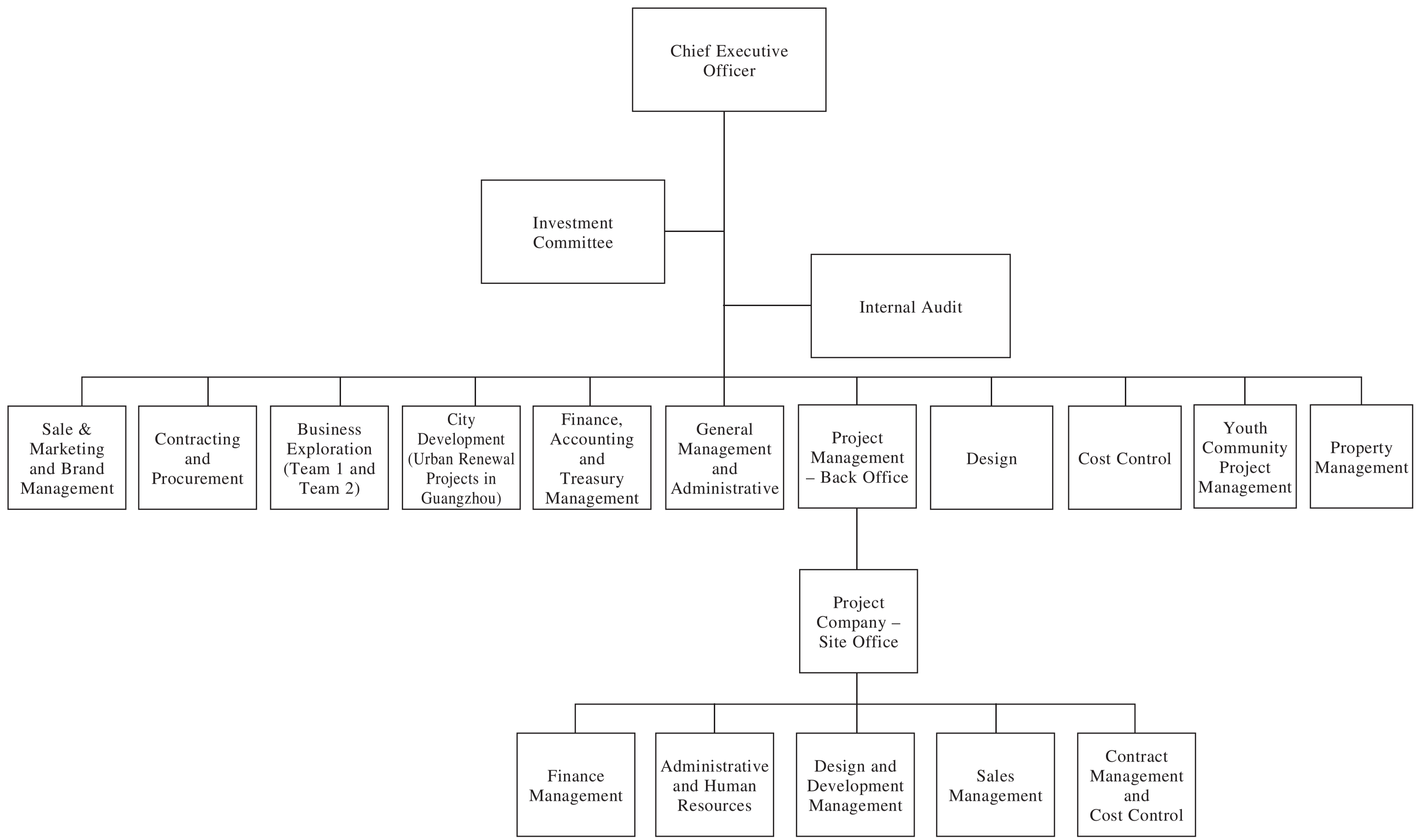
Shenzhen Dachitdat Project is located in Dachitdat Industrial Zone, Guangming District, Shenzhen, Guangdong Province and expected to be comprised of serviced apartments and offices. The project occupies a total site area of 23,600 sq.m. It is a subject of an old district remodelling program, and existing properties on the respective land parcel are under demolition. The project company is in the final stage of the application of the development right for an aggregate GFA of 142,000 sq.m. for innovative industrial and serviced apartment uses. Construction can be commenced once the development right is granted and is expected to take place by the end of 2018. As of December 31, 2017, we had not obtained the land use rights certificate for this project.

Guangzhou Luogang Project ("廣州羅岡項目")

Guangzhou Luogang Project is located on Yin Tong Road, Yonghe District, Guangzhou, Guangdong Province and expected to be comprised of serviced apartments and commercial properties. This project is expected to occupy a site area of 50,263 sq.m. with a planned aggregate GFA of approximately 122,000 sq.m. Commencement of construction is pending the obtaining of government approval for the conversion of the land use from industrial to commercial. Negotiations with the local government have been in progress. As of December 31, 2017, we had not obtained the land use rights certificate for this project.

Our Property Development Management

The following chart sets forth our management and reporting structure of our Group:



The diagram below summarizes the major stages of our property development process.

Site Selection and Land Acquisition

- identify potential site
- conduct market research and feasibility study
- evaluate and obtain approval from the Investment Committee and Chief Executive Officer
- acquire land use rights, project or development rights

↓

Project Planning and Design

- outsource the design work to third-party architecture and design firms
- work with third-party architecture and design firms and our functional departments to develop and finalize design plans

↓

Project Construction, Procurement and Quality Control

- select general contractors through an open tender process
- procure construction raw materials and equipments
- ensure quality control by close on-site suspensions and inspections

↓

Sales and Marketing

- plan and organize on-site sales procedures, conduct market research, set up sales and pricing strategies
- hold promotional and sales events

↓

Delivery and After-sales Services

- deliver completed properties
- provide after-sales services by assisting customers to move in and obtain building ownership certificate
- provide property management services

Site selection

We place a strong emphasis on selecting suitable locations for our projects. We focus on locations with good business potentials, such as Guangzhou, Shenzhen and Zhongshan in the Greater Bay Area, Nanning, Guilin and Chongqing in the Southwestern Region, and Xuzhou in the Huaihai Economic Zone in the PRC.

We select sites primarily through investigating and evaluating the economic and demographic conditions of a city. Our site selection process is led by our dedicated site selection team in our business exploration department consisting of key members of our senior management, who are responsible for identifying a potential project, conducting market research and performing preliminary screening.

We prudently carry out the site selection process in all projects with a strong focus on the quality. The factors we consider in assessing whether a site is suitable for development include, but are not limited to:

- scale and price of the land;
- prospects of the city's development;
- the potential for value appreciation;
- transportation infrastructure;
- the economic environment and the physical and geological characteristics of the site;
- historical features and natural resources;
- local zoning regulations; and
- the central and local governments' industry policy and development strategies.

Land acquisition

In 2015, 2016 and 2017, we obtained our land reserves through the following methods:

- participating in government-organized tenders, auctions and listings-for-sale;
- cooperating with third-party property developers to jointly acquire and develop a project;
- acquiring equity interest from third-party property developers that have entered into land grant contracts with local governments or holders of land use rights; and
- cooperating with representatives of villagers, and original occupants or relevant government agencies in the projects involving urban renewal program in regions in key cities, especially in Guangzhou.

We primarily acquire land through tenders, auctions and listings-for-sale from the PRC government in accordance with relevant PRC laws and regulations. For further details of the applicable PRC laws and regulations relating to land acquisition, see "Regulations — Development of Real Estate Projects."

Project design

In order to provide our customers with distinctive designs and to achieve operations efficiency, we outsource the design of all of our property development projects to third-party domestic or international architecture and design firms. Our design department in Guangzhou head office consists of approximately 16 employees, who are mainly responsible for preliminary pre-planning project design, drawing up design plans of architectural images, interior and landscapes. Our design department is also responsible for selecting such third-party partners, taking into consideration their reputation, proposed designs, service standard, design quality and their past relationship with us. From time to time, we also engage in a well-established tender process for service providers in which the architecture and design firms submit proposals which we determine whether the submitted proposals can be translated into commercially viable projects. Our design department supervises and provides the third-party architecture and design firms with directions and design criteria on which we aim to market our property development projects. In addition, our design department works closely with the architecture and design firms in major aspects of the design process, from master planning, design specifications and adjustments, raw material selection, to ensuring that the designs are in compliance with local regulations. We adopt a design management program whereby upon receiving design schemes from the outside architecture and design firms, our design department is responsible for organizing discussions and review meetings with our functional departments and communicating with our construction contractors to ensure that the design elements are effected as we expect. Our design department closely monitors the work of the architecture and design firms to ensure that the project designs meet our specifications and works together with our project managers, our project management department and senior management to ensure that any problems encountered with the proposed design during construction are resolved in a timely manner and to maintain the quality of construction works and cost control.

Construction and procurement

Project Management

For each of our regional offices in charge of the daily operation of the projects under development, we maintain a project management team consisting of engineers, technicians and supporting staff of a size variable to the scales of the projects. These employees are deployed on site and are responsible for communicating with our construction contractors and specialized contractors and performing quality inspection and control.

Appointment of Construction Contractors

We do not maintain a construction capacity and outsource construction works of all our property development projects to qualified third-party main construction contractors. Such construction works include, among other things, foundation digging, general construction and installation of equipment. The main contractors of our property developments are selected through an open tender process. The tender process is managed by the cost management center of our headquarters and the respective project companies. We conduct due diligence procedures on our potential contractors, such as inspecting their credentials and on-site supervision on their offices and property projects, and only those contractors who have passed such due diligence procedures are invited to participate in the tender. In selecting the winning bid, we typically consider the contractors' professional qualifications, technical capabilities, industry reputation, track record and prices tendered. We also involve in the work of specialized contractors in specific areas, such as landscaping, glass wall panel installations, night lighting system installations and smart key entrance security control system. The specialized contractors are typically selected through a tender process and will typically enter into contracts with us. In 2015, 2016 and 2017, we had engaged and maintained stable business relationships with a number of main construction contractors and specialized contractors.

We are not responsible for any labor issues of our contractors or accidents and injuries that may occur during construction. These risks are borne by the contractors, as provided in our contracts with them. However, our strict quality control measures require our contractors to comply with the relevant rules and regulations including environmental, labor, social and safety regulations to minimize our risks and liabilities. In 2015, 2016 and 2017, our contractors were not involved in any dispute with the Group nor cases of material personal injury or death that had a material and adverse effect on our business. Under typical agreements with our contractors, we make payments to contractors in stages according to the progress of construction works. The percentage of each stage payment varies from project to project according to the terms stipulated in the relevant contracts. Our contracts with contractors typically provide for the retention of a certain percentage of the total payment as quality assurance. Depending on the type of construction works involved, such retention amount is released to the contractor upon the expiry of the relevant quality assurance period, which is generally two years.

Procurement

Our procurement activities fall into two categories: construction raw materials and equipment. Our construction contractors are responsible for procuring raw materials, notably steel and concrete. With respect to construction contracts of substantial value and of a long duration, we typically engage in discussions with our contractors and adjust construction fees if fluctuations in the market prices of such commodities exceed a certain threshold (typically 3% to 5%), and we, as a result, may or may not bear risks associated with such commodity price movements as we will share the risks in price fluctuations depending on cases. In 2015, 2016 and 2017, fluctuations in the price of construction raw materials exceeding the relevant materiality threshold in the relevant contracts had been finalized with our construction contractors and any overruns have been mutually agreed and settled with our construction contractors. Nonetheless, as we typically pre-sell our properties prior to their completion, we will not be able to pass the increased costs to our customers if construction costs increase subsequent to the pre-sale. We generally procure equipment according to strategic cooperation agreements with suppliers. As the purchase prices have been pre-determined and are fixed in a long term, the fluctuation of market prices of relevant equipment will not adversely affect our business and financial performance.

Quality control and project management

We place significant emphasis on quality control in the management of our projects. As of December 31, 2017, we had a team of 69 employees with an average of 12 years of experience in the project management and supervision of contractors' works. The following are certain important measures or procedures we have adopted in furtherance of this goal:

- we ask our construction contractors to first implement its own internal control measures followed by inspections of our project management team, reviews by our regional project quality control team and a quarterly assessment at the Group level; also, our headquarters conducts an internal audit at least annually to identify potential issues and promote measures and initiatives that have proven to be successful in certain projects;

- we perform routine inspections on raw materials when they are delivered, reject materials which are below standard or that do not comply with our specifications and return them to the contractors or suppliers;

- we retain qualified independent third-party professional firms as well as the quality supervision units of the relevant local government authorities to oversee and supervise the overall construction of our projects;

- we assign each project its own on-site project management team, which comprises qualified engineers led by our project managers to ensure quality and monitor the progress and workmanship of construction;

- we compile a set of standardized technical guidelines for construction management of each project; and
- we carry out quality control in accordance with the relevant laws, regulations, and other compulsory standards promulgated by the relevant PRC governmental authorities and other industry associations.

Sales and marketing

Sales and Marketing Plan

Our internal sales department is responsible for managing our sales and marketing functions. As of December 31, 2017, our sales and marketing team comprised over 15 employees, all of whom receive regular training from time to time. Our sales managers and our marketing managers cooperate closely to determine appropriate advertising and sales plans for a particular property development. They also work together to plan and organize efficient and orderly on-site sales procedures, conduct market research, design sales and pricing strategies, arrange promotional activities and collect customer data and comments. They also prepare feasibility studies based on market analysis.

As part of our sales and marketing strategy, we advertise in newspapers, magazines and through outdoor advertising boards or organized promotional events. We also utilize short messaging services, or SMS, and participate in real estate exhibitions to promote our products. We also offer discounts to group customers.

The sales and marketing teams of our project companies study local market information and formulate pre-marketing, sales and pricing plans and procedures for approval by the sales and marketing center of our headquarters. We determine our per unit sales price with reference to the sales price of market comparables, market conditions and our development costs. Our sales and marketing personnel are incentivized by performance-based compensation packages. Throughout and subsequent to the project development and pre-sale period, we provide comprehensive assistance to our customers, coordinate internally to address queries raised by, and collect feedback from, our customers and potential customers for us to evaluate our products and devise modifications to designs of our future properties as appropriate to address any change in market demand.

Our promotion channels primarily include advertising through newspapers, television, radio, internet, billboards, magazines and mobile phone text messages. We generally engage professional property sales agencies and advertising design agencies in China to assist us in our sales campaigns. We hold promotional and sales events at our property development project premises and invite potential customers to visit exhibit units. Customers of some of our property development projects are entitled to referral bonuses.

Pre-sale

In line with market practice in the PRC, we normally commence pre-sales of our property development project before completion of the entire project. Our pre-sales typically are progressive with construction and in accordance with our marketing strategies and plans. Relevant PRC laws and regulations require property developers to fulfill certain conditions, including but not limited to payment of the land grant premium and obtaining the relevant land use rights certificate, construction works planning permit, construction works commencement permit and pre-sale permit before the commencement of pre-sales. See "Regulations — Development of Real Estate Projects" for further details of the laws and regulations governing pre-sale. We generally time the launch of our pre-sale campaigns according to the progress of construction, market conditions and in hot sales seasons. Once a project is substantially sold out, we re-deploy our sales staff to other projects.

Our pre-sale contracts are prepared in accordance with applicable PRC laws and regulations. Purchasers are typically required to make a down-payment according to the schedule stipulated in the sales contract. The amount of down-payment to be paid and the circumstances in which deposits may be forfeited are stipulated in relevant pre-sales contracts. In accordance with the requirements of applicable PRC laws and regulations, we register such pre-sale with the relevant local authorities and provide warranties on the quality of properties we construct or sell to our customers for periods no shorter than the period of quality warranties we receive from our construction contractors under the relevant construction contracts, being generally one to five years. See "Risk Factors— Risks Relating to Our Industry— We are exposed to contractual and legal risks related to pre-sales, which could have a material adverse effect on our business, financial condition and result of operations" for further details regarding the associated risks.

COMPETITION

The PRC real estate industry is highly fragmented and competitive. As a real estate developer in China, we primarily compete with other Chinese real estate developers focusing on the development of commercial and residential properties in the PRC. We compete in many aspects, including product quality, service quality, price, financial resources, brand recognition, ability to acquire land and other factors. In recent years, an increasing number of property developers from the PRC and overseas have entered the property development markets in the cities where we have operations, resulting in increased competition for land available for development. Moreover, the PRC government has implemented a series of policies to control the growth and curtail the overheating of, and foreign investment in, the PRC property sector. We believe major entry barriers into the PRC property development industry include a potential entrant's limited knowledge of local property market conditions and limited brand recognition in these markets. We believe that the PRC real estate industry still has large growth potential. We believe that, with our solid experience in real estate development, our strategic focus on development of youth community residential projects and the provision of services to support the living and entrepreneurial development of young home buyers in China, our reputable brand name and our effective management team, we are able to respond promptly and effectively to challenges in the PRC property market.

PROPERTY INVESTMENT

As of December 31, 2017, we leased retail and office properties with an aggregate total GFA of approximately 18,000 sq.m. to operators of business center, co-working place and general offices. When entering into leasing agreements, we scrutinized the backgrounds of the lessees to ensure they are financially sound and reputable in business. The duration of the leases of these properties was typically two years to eight years.

In addition, 800 car parking spaces in Zhoutouzui Project were put for long-term leasing during 2017. The project company has outsourced the management of these car parks to a third party at a fixed management fee with certain rent-free period. The duration of the lease of these car parking spaces is five years.

PROPERTY MANAGEMENT

We currently provide property management services to properties developed by us or by companies affiliated with our controlling shareholder prior to his taking over the control of the Company. As of December 31, 2017, we provided property management services to three of our property projects and four of third party properties. Our property management services are mainly provided by Guangzhou Tianyu Property Management Company Limited (廣州市天譽物業管理有限公司).

OPERATIONS OF YOUTH COMMUNITY PROJECTS

We now have a team of 11 staff dedicated to youth community projects business. We provide services to support the needs of residents and start-up enterprises in the co-work spaces established at our youth communities. We also collaborate with renowned corporations in the sectors of entertainment, education, medical care and co-work places operations. In addition, we assist start-up enterprises set up in our pilot co-work place in Guangzhou by investing in potential business incubated by some enterprises, and this type of investments is expanding when increasing business ideas are nourished in these incubators. Commenced in 2016, operations of the youth community developments have not generated material operating profits or losses to the Group. However, this business model, we believe, is not only an ancillary business line to our property developments for young buyers, but will become an income driver to the Group in the near future as and when increasing number of youth community projects are completed and put into use.

INSURANCE

We maintain different types of insurance policies to cover our operations, including comprehensive asset insurance, public safety liability insurance, automobile liability insurance and construction all risks insurance. We do not carry, however, insurance in respect of certain risks that we believe are not insured under normal industry practice in China, or which are uninsurable on commercially acceptable terms, if at all, such as those caused by war and civil disorder.

EMPLOYEES

As of December 31, 2017, we had 742 full-time employees. The following table sets forth the breakdown of our employees by function:

Employee Function	Number of Employees
Sale Marketing and Brand Management	15
Contracting and Procurement	8
Investment and Business Development	16
Finance, Accounting and Treasury Management	17
General Management and Administrative	57
Design	15
Cost Control	10
Property Management	430
Project Management – back office	16
Project Management – site office	158
Total	**742**

We recruit and promote individuals based on merit and their development potentials. The remuneration package inclusive of bonus and share option scheme offered to all employees, including Directors, is determined with reference to their performance and the prevailing salary levels in the market.

We train our staff at all levels through orientation training and subsequent continuous on-the-job skills development training. We have developed various professional training courses and materials and arranged external trainers to enhance the quality of training.

INTELLECTUAL PROPERTY RIGHTS

We conduct our business and marketing primarily under our "Skyfame," "天譽," "Mr. Fish's Community" and "Mr. Fish" brand names. As of December 31, 2017, Skyfame Realty (Holdings) Limited had registered three trademarks in China listed as below:

天 譽

Guangzhou Yucheng Development Company Limited (廣州譽城房地產開發有限公司) had applied for the registration of certain trademarks in China. As of the date of this information memorandum, these applications are still being processed.

As of December 31, 2017, we had also registered two domain names with Internet Corporation for Assigned Names and Numbers.

As of December 31, 2017, we had not encountered any material third-party intellectual property infringement claims.

LEGAL PROCEEDINGS

From time to time, we may be involved in various legal proceedings, claims and administrative penalties that arise in the ordinary course of business. There had not been any legal proceedings or disputes that have resulted in any material adverse effect on us for the past three years ended December 31, 2017. We are not engaged in any litigation or arbitration of material importance and no litigation, arbitration of claim of material importance is known to us to be pending or threatened against us.

This section summarizes the principal PRC laws and regulations that are relevant to our business and operations. These include the laws and regulations relating to our real estate development, investment and management businesses in the PRC and other relevant laws and regulations. As this is a summary, it does not contain a detailed analysis of the PRC laws that are relevant to our business and operations.

THE PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, directives and local laws, laws of Special Administrative Regions and laws resulting from international treaties entered into by the PRC government. Court verdicts do not constitute binding precedents, but are used for purposes of judicial reference and guidance.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State agencies and civil and criminal matters. The Standing Committee of the NPC has the power to enact and amend all laws except for the laws that are required to be enacted and amended by the NPC.

The State Council is the highest organ of the State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC. In the event that a conflict arises, the Standing Committee of the NPC has the power to annul administrative rules, regulations, directives and orders.

At the regional level, the provincial and municipal congresses and their respective standing committees may enact local rules and regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local rules and regulations must be consistent with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

The State Council and the provincial and municipal governments may also enact or issue rules, regulations or directives in new areas of the law for experimental purposes or in order to enforce the law. After gaining sufficient experience with experimental measures, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The PRC Constitution holds the power to interpret laws in the Standing Committee of the NPC. The Supreme People's Court, in addition to its power to give general interpretation on the application of laws in judicial proceedings, also has the power to interpret specific cases. The State Council and its ministries and commissions are also vested with the power to interpret rules and regulations that they have promulgated. At the regional level, the power to interpret regional rules and regulations is vested in the regional legislative and administrative bodies that promulgate such laws.

THE PRC JUDICIAL SYSTEM

Under the PRC Constitution and the Law of Organization of the People's Courts, the judicial system is made up of the Supreme People's Court, local courts, military courts and other special courts. The local courts are comprised of the basic courts, the intermediate courts and the higher courts.

The basic courts are organized into civil, criminal, economic, administrative and other divisions. The intermediate courts are organized into divisions similar to those of the basic courts, and are further organized into other special divisions, such as the intellectual property division. The higher level court supervises the basic and intermediate courts. The People's Procuratorates also have the right to exercise legal supervision over the civil proceedings of courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all other courts.

The courts employ a two-tier appellate system. A party may appeal against a judgment or order of a local court to the court at the next highest level. Second judgments or orders given at the next highest level and the first judgments or orders given by the Supreme People's Court are final. First judgments or orders of the Supreme People's Court are also final. If, however, the Supreme People's Court or a court at a higher level finds an error in a judgment that has been given in any court at a lower level, or the presiding judge of a court finds an error in a judgment which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures.

The Civil Procedure Law of the PRC, which was adopted on April 9, 1991 and amended on October 28, 2007 and August 31, 2012, respectively, sets forth the criteria for instituting a civil action, the jurisdiction of the courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff 's or the defendant's place of residence or the place of execution or implementation of the contract or the object of the action. However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the court to request enforcement of the judgment, order or award. The time limit imposed on the right to apply for such enforcement is two years. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by the opposing party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a court against a party who is not located within the PRC and does not own any property in the PRC may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. A foreign judgment or ruling may also be recognized and enforced by the court according to PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country that provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination based on the principals of reciprocity. However, a foreign judgment or ruling may not be recognized and enforced if the court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or would be contrary to social and public interests.

ESTABLISHMENT OF A REAL ESTATE DEVELOPER

General Regulations

The laws and regulations that permit the existence and investment in real estate development in China are the basis for our establishment and continued expansion in China.

According to the Law on Administration of Urban Real Estate of the PRC (中華人民共和國城市房地產管理法, the "Urban Real Estate Law") promulgated by the Standing Committee of NPC on July 5, 1994, becoming effective in January 1995, and amended in August 2007 and August 2009 respectively, real estate development refers to the act of constructing infrastructure and buildings on state-owned land, the land use rights of which have been legally acquired; and a real estate developer is defined as an enterprise which engages in the development and operation of real estate for the purpose of making profits. Under the Administrative Regulations on Urban Real Estate Development and Operation (城市房地產開發經營管理條例, the "Development and Operation Regulations") promulgated by the State Council on July 20, 1998 and revised on January 8, 2011, an enterprise which is to engage in the development of real estate shall satisfy the following requirements:

- its registered capital shall be RMB1 million or more; and

- it shall have four or more full-time professional real estate/construction technicians and two or more full-time accountants, each of whom shall hold the relevant qualification certificate.

According to the Development and Operation Regulations, the People's Government of a province, autonomous region or municipality directly under the Central Government may, based on local circumstances, impose more stringent requirements than the preceding clauses over the registered capital and professional technicians of a real estate developer.

According to the Development and Operation Regulations, to establish a real estate developer, an application for registration shall be submitted to the administration for industry and commerce. The real estate developer shall also file its establishment with the competent authority of real estate development in the location of its registration within 30 days upon obtaining its business license. Establishment of a foreign-invested enterprise engaging in real estate development and sale shall also go through the relevant review and approval procedures in accordance with the PRC laws and regulations on foreign-invested enterprises.

In May 2009, the State Council issued the Circular on Adjusting the Proportion of Capital Fund in Fixed Asset Investment Projects (關於調整固定資產投資項目資本金比例的通知) to reduce such proportion to 20% for ordinary commodity housing projects (普通商品住房項目) and indemnificatory housing projects (保障性住房專案) and 30% for other real estate development projects.

QUALIFICATIONS OF A REAL ESTATE DEVELOPMENT ENTERPRISE

Under the Regulations on Administration of Development of Urban Real Estate (城市房地產開發經營管理條例) promulgated by the State Council on July 20, 1998 and revised on January 8, 2011, the real estate development authorities shall examine applications for registration of qualifications of a real estate developer when it reports its establishment, by considering its assets, professional personnel and business results. A real estate developer shall only undertake real estate development projects in compliance with the approved qualification registration.

Under the Provisions on Administration of Qualification of Real Estate Developers (房地產開發企業資質管理規定), or the Provisions on Administration of Qualifications, promulgated by Ministry of Construction and implemented on March 29, 2000 and revised on May 4, 2015, a real estate development enterprise must apply for registration of its qualification according to the Provisions on Administration of Qualifications. An enterprise may not engage in the development and sale of properties without a qualification classification certificate for real estate development. Ministry of Construction oversees the qualifications of real estate developers with national operations, and local Ministry of Construction authorities at or above the county level oversee the qualifications of local real estate developers.

In accordance with the Provisions on Administration of Qualifications, the qualification of a real estate development enterprise is classified into four classes: class 1, class 2, class 3 and class 4. Different classes of qualifications should be examined and approved by corresponding authorities.

- Class 1 qualifications are subject to preliminary examination by Ministry of Construction authorities at the provincial level and the final approval of Ministry of Construction. A class 1 real estate developer is not restricted as to the scale of its real estate projects and may undertake a real estate development anywhere in the country.

- Class 2 or lower qualifications are regulated by Ministry of Construction authorities at the provincial level subject to delegation to lower level government agencies. A real estate developer of class 2 or lower may undertake a project with a total GFA of less than 250,000 sq.m. subject to confirmation by Ministry of Construction authorities at the provincial level.

Under the relevant PRC laws and regulation, the real estate development authorities will examine applications for registration of qualifications submitted by real estate developers by considering the professional personnel in their employment, financial condition and operating results. A real estate developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority. A developer within any specific qualification classification may only engage in the development and sale of real estate within its approved scope of business and may not engage in business which is limited to another classification.

For a newly established real estate developer, the competent authorities will issue a provisional qualification certificate, if it is an eligible developer, within 30 days of receipt by the authority of the application. The provisional qualification certificate will be effective for one year since its issuance, and MOHURD authorities may extend the validity to a period of no longer than 2 years considering the actual business situation of the enterprise. The real estate developer should apply for qualification of classification to the relevant authorities within one month before expiration of its provisional qualification certificate.

Pursuant to the Provisions on Administration of Qualifications, the qualification of a real estate developer should be subject to annual inspection. The construction authority under the State Council or its entrusted institution is responsible for carrying out the annual inspection of the qualification of class 1 real estate developers. Procedures for annual inspection of developers of class 2 or lower qualifications shall be formulated by the construction authorities under the people's government of the relevant province, autonomous region or provincial-level municipality.

DEVELOPMENT OF REAL ESTATE PROJECTS

Land for Real Estate Development

Although all land in the PRC is owned by the state or is collectively owned, individuals and entities may obtain land use rights and hold such land use rights for development purposes.

On April 12, 1988, NPC amended the Constitution, permitting the legal transfer of land use right. On December 29, 1988, and August 28, 2004, the Standing Committee of NPC amended the "Land Administration Law of the PRC" (中華人民共和國土地管理法), permitting the legal transfer of land use right.

Under the Interim Regulations on Grant and Assignment of the State-owned Urban Land Use Right of the PRC (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例), the "Interim Regulations on Grant and Assignment") promulgated by the State Council on May 19, 1990, China adopts a system of granting and assigning state-owned land use right. A land user shall pay a land premium to the State as the consideration for the grant of the land use right by the State for a specified period of time, during which the land user may assign, lease, mortgage or otherwise commercially exploit the land use right. Under the Urban Real Estate Law and the Interim Regulations on Grant and Assignment, the land administration authorities at city or county level shall enter into a land grant contract with the land user to grant land use right. The land user shall pay the land premium as stipulated by the land grant contract. After paying the land premium in full, the land user may register with the land administration authorities and obtain a land use rights certificate evidencing the acquisition of land use right.

The Urban Real Estate Law and the Development and Operation Regulations provide that the land use right of land for real estate development must be obtained through grant, except for land use rights which may be obtained through premium-free allocation pursuant to the provisions of the PRC laws or the administrative regulations of the State Council.

On September 24, 2003, Ministry of Land and Resources promulgated the Circular on Strengthening Land Supply Management and Promoting the Sustainable Sound Development of the Real Estate Market (關於加強土地供應管理促進房地產市場持續健康發展的通知), amended on December 3, 2010, which provides that land supply for high-class commodity housing shall be strictly controlled.

On August 31, 2006, the State Council promulgated the Circular on Strengthening Land Control (關於加強土地調控有關問題的通知). The circular requires to establish a system for uniformly publicizing the minimum rate standards of industrial land grant to uniformly formulate and publicize the minimum rate standards of industrial land grant in all localities. The minimum rate standards of industrial land grant shall not be less than the sum of the cost of obtaining the land, the preliminary cost of land development and the related expenses collected as required. The industrial land must be transferred by way of tender, auction or listing at a price not less than the minimum rates as publicized.

Under the Rules Regarding the Grant of State-Owned Land Use Right By Way of Tender, Auction and Listing (招標拍賣掛牌出讓國有土地使用權規定) which was promulgated by Ministry of Land and Resources on May 9, 2002 and implemented from July 1, 2002, and amended on May 31, 2006, whose name altered to Rules on the Assignment of the State-owned Land Use Right by Means of Bid Tendering, Auction and Quotation (for Trial Implementation) (招標拍賣掛牌出讓國有土地使用權規範(試行)), land for operational purposes, such as business, tourism, entertainment and commercial residential housing, shall be granted through tender, auction or listing. On September 28, 2007, Ministry of Land and Resources promulgated the Rules Regarding the Grant of Right to Use State-Owned Construction Land By Way of Tender, Auction and Listing (招標拍賣掛牌出讓國有建設用地使用權規定), which were effective from November 1, 2007. The Rules further clarify the procedures for the grant of land use right by way of tender, auction and listing. Moreover, pursuant to the Rules, land for operational purposes such as industry (including warehouse land, but excluding mining land), business, tourism, entertainment and commercial residential housing, and a land parcel with two or more potential users must be granted by way of tender, auction or listing. The grantee of land use right may only have the land registered and obtain the land use rights certificate after full settlement of the land premium as specified in the relevant land grant contract. No land use rights certificate shall be issued before full settlement of the land premium or in proportion to the land premium paid.

On September 30, 2007, Ministry of Land and Resources issued the Circular on Implementation of the State Council's Certain Opinions on Resolving Housing Difficulties of Urban Low Income Families by Further Strengthening Control of Land Supply (關於認真貫徹《國務院關於解決城市低收入家庭住房困難的若干意見》進一步加強土地供應調控的通知) which was amended on December 3, 2010 to further enhance the control of land supply. The circular provides that the annual total supply of the land to be developed for low-rent housing, affordable housing and ordinary commodity housing at low-to-medium price and of small-to-medium size must be not less than 70% of the total supply of land for residential housing; the land and resources authorities shall reasonably control the size of each land parcel, shorten the development cycle of the land (the development and construction period of each land parcel shall be no longer than three years in principle) and increase the total amount of land supply, in order to prevent "land enclosure" in large scale by real estate developers. Real estate enterprises which fail to commence and complete construction according to the terms of the relevant land grant contract and rectify the situation within the specified period are prohibited from purchasing new land by tender, auction or listing.

On January 3, 2008, the State Council issued the Circular on Promoting the Economical and Intensive Use of Land (關於促進節約集約用地的通知), which provides that for land currently used for industrial purpose, under the precondition that it accords with the relevant planning and that the use of land is not changed, if the land utilization ratio and the plot ratio are increased, no additional land fee should be collected. For newly added land for industrial purpose, control indicators should be further enhanced and no additional land fee should be collected for any part that the GFA of a plant exceeds the control indicators for the plot ratio of such plant. The land user and land fee for land used for industrial and operational purposes must be determined by way of tender, auction or listing.

On May 11, 2009, Ministry of Land and Resources issued the Circular on Adjusting the Minimum Rate Standards for Industrial Land Grant (關於調整工業用地出讓最低價標準實施政策的通知).

According to the Circular, for industrial projects which fall within the category of priority industries of the provinces (districts/cities) with an intensive use of land, the base price for land grant may be determined at a level of not less than 70% of the price standard for the class of land where they locate. The base price for industrial land grant shall not be less than the sum of the cost of obtaining the land, the preliminary cost of land development and the related expenses collected as required.

On August 10, 2009, Ministry of Land and Resources and the Ministry of Supervision of the PRC promulgated the Circular on Further Implementing the Industrial Land Grant System (關於進一步落實工業用地出讓制度的通知). The circular provides that the industrial land shall be granted through tender, auction or listing. During the industrial land grant period, the grantee may increase the plot ratio without paying any additional land premium upon approval, provided that such increase conforms with the plan and that the use of land is not changed.

MOF, Ministry of Land and Resources, PBOC, the Ministry of Supervision of the PRC and the National Audit Office of the PRC issued the Circular on Further Tightening Control over Income and Expenses of Land Grant (關於進一步加強土地出讓收支管理的通知) on November 18, 2009. According to the circular, the term of payment by installment for land premium as stipulated in the land grant contract shall not exceed one year in principle or, in the case of special projects, the payment shall be fully settled within two years as collectively decided by local land grant coordination and decision-making authorities. The down payment shall not be less than 50% of the land premium.

On March 8, 2010, Ministry of Land and Resources promulgated the Circular Concerning Issues on Strengthening Real Estate Land Supply and Supervision (關於加強房地產用地供應和監管有關問題的通知) to strictly regulate the grant of land for commodity housing. According to the circular,

- the supply of land for affordable housing, rebuilt shanty areas and small-to-medium sized self-occupied commodity housing shall not be less than 70% of the total land supply for residential housing construction. Land supply for large-sized residential housing construction shall be strictly controlled, and land supply for villas shall be suspended.

- the area of a single land parcel granted for commodity housing shall be strictly controlled.

- the minimum price of land grant shall not be less than 70% of the benchmark price of the class where the land parcel being granted is located, and the bidding deposit shall not be less than 20% of the minimum grant price.

- after a land grant deal is closed, a land grant contract shall be signed within 10 working days therefrom.

- the first installment, which is 50% of the grant price, shall be paid within one month after signing the contract, while the remaining payment shall be made in time in accordance with the contract, which shall not be later than one year.

On September 21, 2010, Ministry of Land and Resources and MOHURD jointly released the Circular on Further Strengthening Administration and Control over Land Utilization and Construction of Real Estate (關於進一步加強房地產用地和建設管理調控的通知) to tighten the examination of qualifications of land bidders. The circular specifies that when a bidder takes part in the bidding, auction or listing of the granted land, the competent department of land and resources shall, in addition to requiring effective certificate of identity and payment of the tender (bid) deposit, require an undertaking letter stating that the tender (bid) deposit is not sourced from any bank loan, shareholders' borrowing, on-lending or fund-raising as well as a credit certificate issued by a commercial financial institution. Where a bidder is found to have violated the laws, regulations or contracts as follows, the competent department of land and resources shall forbid the bidder and his controlling shareholders from participating in land bidding activities: (1) committing crimes, such as forgery of instruments with an aim of obtaining the land by deception and illegal re-sale of the land; (2) conducting illegal activities, such as illegal transfer of land use right; (3) leaving the land idle for more than one year for developer 's own reasons; (4) where the development and construction enterprise develops and utilizes the land in violation of the conditions stipulated in the grant contract. Besides, the grant of two or more bundled land parcels or uncleared lands is prohibited.

On December 19, 2010, Ministry of Land and Resources issued the Circular on Issues Concerning Strict Implementation of Real Estate Land Control Policies and Promotion of Healthy Development of the Land Market (關於嚴格落實房地產用地調控政策促進土地市場健康發展有關問題的通知). According to the circular, where a bidder and his controlling shareholders are found to act in violation of relevant laws, regulations and contracts, such as forging instruments with an aim of obtaining the land by deception, illegally reselling the land, illegally transferring land use right, leaving the land idle for more than one year for developer 's own reason and developing and utilizing the land in violation of the conditions stipulated in grant contracts, they shall not pass the bidding qualification examination. Arbitrary adjustment of the plot ratio shall be stopped firmly. Where plot ratio adjustment is approved in line with relevant laws, the competent departments of land and resources at city or county level shall determine the land premium differences to be paid on the basis of the land value in terms of per unit floorage in the land market at the time when the adjustments are approved.

On May 13, 2011, Ministry of Land and Resources issued the Opinions on Maintaining and Improving the System for the Grant of Land by way of Tender, Auction and Listing (關於堅持和完善土地招標拍賣掛牌出讓制度的意見). According to the opinions, on the basis of determining the base price of land grant in accordance with the law, factors affecting the development and utilization of land, such as land price and time of payment, development and construction cycle, construction requirements, degree of economical and intensive use of land and performance of previous grant contracts by the enterprises, shall be taken as bid evaluation conditions.

Use of Land

On May 23, 2012, Ministry of Land and Resources and NDRC jointly issued the Catalogue of Restricted Use of Land (2012 Version) (限制用地項目目錄(2012年本)) and the Catalogue of Prohibited Use of Land (2012 Version) (禁止用地項目目錄(2012年本)). According to the above catalogues, the area of a parcel of land granted for residential project shall be no more than 7 hectares in small cities and designated towns, 14 hectares in medium cities or 20 hectares in large cities; the plot ratio shall not be lower than 1.0 (1.0 included); real estate development projects for villas and golf courses shall fall into the category of prohibited use of land.

In accordance with the Regulations for the Expropriation of and Compensation for Housing on State-Owned Land (國有土地上房屋徵收與補償條例) promulgated by the State Council and implemented in January 2011, with regard to the expropriation of the housing of entities and individuals on the State-owned land, the owners of the housing being expropriated shall be offered a fair compensation for the need of public interest.

Compensation offered by governments at municipal and county levels that make housing expropriation decision to parties with housing being expropriated includes: (i) compensation for the value of the housing being expropriated; (ii) compensation for relocation and temporary settlement caused by expropriation of housing; and (iii) compensation for the loss arising from the suspension of production and operation caused by expropriation of housing.

The amount of compensation for value of housing being expropriated shall not be less than market price of the real estate similar to it on the announcement date of the housing expropriation decision. The value of housing being expropriated shall be appraised and determined by a real estate price appraisal institution with corresponding qualification according to the housing expropriation appraisal measures. A party that objects to the value of the housing being expropriated appraised and determined may apply to the real estate price appraisal institution for review of the appraisal. A party that objects to the review result may apply to the real estate price appraisal expert committee for verification.

The parties with housing being expropriated may choose monetary compensation, or may choose to exchange the property right of housing. If the parties with housing being expropriated choose to exchange the property right of housing, governments at municipal and county levels shall provide housing used for the exchange of property right, and calculate and settle the difference between the value of housing being expropriated and the value of housing used for the exchange of property right. If residential housing of an individual is expropriated due to renovation of old urban district and individual chooses to exchange for the property right of housing in the area being renovated, governments at municipal and county levels that make the housing expropriation decision shall provide the housing in the area being renovated or the nearby area.

Commencement of Development of a Real Estate Project

In accordance with the Measures for Administration of Examination and Approval of Construction Land (建設用地審查報批管理辦法) promulgated by Ministry of Land and Resources on March 2, 1999 and amended in November 2010 and November 2016, respectively, and the Measures for Administration of Preliminary Examination of Construction Project land (建設項目用地預審管理辦法) promulgated by Ministry of Land and Resources on July 25, 2001, and amended on November 1, 2004, November 29, 2008 and November 25, 2016, respectively and taking effect from January 1, 2009, the constructor or developer must make a preliminary application for the construction land to the relevant competent land administration authorities. After receiving the preliminary application, the competent land administration authorities shall carry out preliminary examination on matters related to the construction project in compliance with the overall land utilization plans and national land supply policy. The competent land administration authorities at city or county level will sign a land grant contract with the land user and issue an Approval Certificate for Construction Land to the constructor or developer.

Idle Land

According to the Urban Real Estate Law, those who obtain land use right for real estate development by grant must develop the land according to the purposes and within the development time frame as agreed under the land use right grant contract. These who fail to commence development of the land within one year from the construction commencement date stipulated in the land grant contract may be charged an idle land fee of up to 20% of the land premium, and those who fail to commence development within two years may be deprived of land use right without compensation, except where the delay in commencement is due to force majeure, actions of governments or relevant government departments, or preliminary work necessary for the commencement of development.

According to the Regulations on the Disposal of Idle Land (閒置土地處置辦法) promulgated by Ministry of Land and Resources on April 26, 1999, amended on June 1, 2012 and taking effect from July 1, 2012, land with the following conditions is considered to be idle:

- the holder of the state-owned construction land use right fails to commence developing the state-owned construction land within one year after the construction commencement date as agreed or stated in the contract of compensated use of state-owned construction land or the land allocation decision;

- the area of the construction land developed upon commencement of development is less than 1/3 of the planned total area for development and construction, and the development and construction of the state-owned construction land has been suspended for more than one year;

- the amount invested in the land is less than 25% of the total investment, and the development and construction of the state-owned construction land has been suspended for more than one year; or

- failing to commence development and construction within one year from the date of actual delivery of land, if the construction commencement date is not agreed or stated or not clearly agreed or stated.

According to the above regulations, for idle land where construction and development has not commenced for one year, the competent department of land and resources at city or county level shall charge idle land fee at 20% of the cost of land grant or allocation. In the event that the construction and development has not commenced for two years, the competent department of land and resources at city or county level shall, upon the approval of the People's Government with approval authorities, issue the Decision on Recovering the Right to Use State-owned Construction Land to a holder of state-owned construction land use right, and recover the right to use the state-owned construction land without compensation. The above regulations also list the situations where the idleness of land is due to the reasons attributable to the governments as well as the ways of handling idle land under such situations.

Planning of a Real Estate Project

Under the Measure for Planning and Administration of Grant and Assignment of Right to Use Urban State-owned Land (城市國有土地使用權出讓轉讓規劃管理辦法) promulgated by Ministry of Construction on December 4, 1992, becoming effective from January 1, 1993 and revised on January 26, 2011, the grantee under a land grant contract, i.e. a real estate developer, shall apply for a construction land planning permit from the relevant competent authorities of urban planning and administration. The enterprise may apply for the certificate of land use right only after obtaining such permit.

Under the Law on Urban and Rural Planning of the PRC (中華人民共和國城鄉規劃法) promulgated by the Standing Committee of NPC on October 28, 2007, effective from January 1, 2008 and revised on April 24, 2015, a real estate developer shall apply for the construction work planning permit from the competent authorities of urban and rural planning under the People's Government at city or county level for project construction.

Construction of a Real Estate Project

According to the Measures for Administration of Construction Permit for Construction Projects (建築工程施工許可管理辦法) promulgated by MOHURD on June 25, 2014, becoming effective from October 25, 2014, a developer engaging in the construction and decoration of various kinds of houses and buildings as well as the ancillary facilities shall apply for a construction permit from the competent construction administration authorities at county level or above where the construction is located before the commencement of the construction.

In accordance with the Circular on Strengthening and Standardizing the Administration of Newly-commenced Projects (關於加強和規範新開工項目管理的通知) promulgated by the General Office of the State Council on November 17, 2007, construction projects shall meet certain conditions before commencement including complying with the national industrial policies, development and construction plans, land supply policies and market access criteria; completing the approval, ratification or filing procedures; complying with the urban and rural planning; obtaining the approval of the use of land; completing the approval of the environmental impact assessment; completing the energy-saving appraisal and examination for fixed asset investment projects; and acquiring the construction permit.

Completion of a Real Estate Project

According to the Development and Operation Regulations, the Provisions on Acceptance Inspection Upon Completion of House Construction and Municipal Infrastructure Projects (房屋建築和市政基礎設施工程竣工驗收規定) promulgated by MOHURD on December 2, 2013 and the Administrative Measures on the Filing of Acceptance Inspection upon Completion of House Construction and Municipal Infrastructure Projects (房屋建築和市政基礎設施工程竣工驗收備案管理辦法) promulgated by Ministry of Construction on April 4, 2000 and revised by MOHURD on October 19, 2009, after the completion of real estate projects, the real estate developer must organize an acceptance inspection and, after passing the inspection, file with the relevant governmental authorities on such completion of acceptance inspection. A real estate development project shall not be delivered for use until and unless it has carried out and passed the acceptance inspection. Where a real estate project is developed in phases, acceptance inspection may be carried out by phase.

Construction Safety

Under relevant laws and regulations such as the Laws of Safe Production of the PRC (中華人民共和國安全生產法), promulgated by the Standing Committee of NPC in June 2002 and revised in August 2009 and August 2014, the property development enterprise should apply to the supervisory department on safety for the registration of supervision for work safety in construction before the commencement of construction. Constructions without such registration will not be granted a construction work commencement permit by the supervisory body. Contractors for the construction should establish the objectives and measures for work safety and improve the working environment and conditions of workers in a planned and systematic way. A work safety protection scheme should also be set up to carry out the work safety job responsibility system. At the same time, contractors should adopt corresponding site work safety protective measures according to the work protection requirements in different construction stages and such measures shall comply with the labor safety and hygiene standards of the State.

Under the Construction Law of the PRC (中華人民共和國建築法) promulgated and revised by the Standing Committee of NPC in November 1997 and April 2011, respectively, general construction contractor shall take overall responsibility for the safety in the construction site. Each subcontractor is required to comply with the protective measures adopted by general contractor and to purchase insurance policies covering accident injury for its employees on site.

Civil Air Defense Property

Pursuant to the Law on National Defense of the PRC (中華人民共和國國防法) promulgated by NPC on March 14, 1997, as amended on August 27, 2009, national defense assets are owned by the state. Pursuant to the Law on Civil Air Defense of the PRC (中華人民共和國人民防空法), or the Civil Air Defense Law, promulgated by NPC on October 29, 1996, as amended on August 27, 2009, civil air defense is an integral part of national defense. The Civil Air Defense Law encourages the public to invest in the construction of civil air defense properties and investors in civil air defense properties are permitted to use (including lease) and manage civil air defense properties in time of peace and profit therefrom. However, such use may not impair their functions as civil air defense properties. The design, construction and quality of civil air defense properties must conform to the protection and quality standards established by the state. On November 1, 2001, the National Civil Air Defense Office issued the Administrative Measures for Developing and Using the Civil Air Defense Property at Ordinary Times (人民防空工程平時開發利用管理辦法) and the Administrative Measures for Maintaining the Civil Air Defense Property (人民防空工程維護管理辦法), which specify how to use, manage and maintain civil air defense properties.

Insurance of a Property Project

There are no mandatory provisions in PRC laws, regulations and government rules which require a property development enterprise to take out insurance policies for its property projects. However, PRC commercial banks may require the property development enterprise to purchase insurance as a condition for the commercial bank intends to grant a development loan to the property development enterprise.

Environmental Protection

The laws and regulations governing the environmental protection for real estate developments in China include the Environmental Protection Law of the PRC (中華人民共和國環境保護法), the Prevention and Control of Noise Pollution Law of the PRC (中華人民共和國環境噪聲污染防治法), the Environmental Impact Assessment Law of the PRC (中華人民共和國環境影響評價法) and the Administrative Regulations on Environmental Protection for Development Projects (建設項目環境保護管理條例). Pursuant to these laws and regulations, depending on the impact of the project on the environment, an environmental impact report, an environmental impact analysis table or an environmental impact registration form must be submitted by a developer and approved by the relevant environmental regulatory authority, before the relevant authority will grant an approval for the commencement of construction of the real estate development. In addition, upon completion of the real estate development, the relevant environmental regulatory authority will also inspect the property project to ensure compliance with the applicable environmental protection standards and regulations before the property project may be delivered to the purchasers.

PROPERTY MANAGEMENT

According to the Regulations on Property Management (物業管理條例) issued by the State Council on June 8, 2003, effective from September 1, 2003 and amended on August 26, 2007 and February 6, 2016, respectively, the State implements a qualification scheme in managing property service enterprises.

Under the Regulations on Property Management, an enterprise engaging in realty management activities shall be qualified as an independent corporation and subject to the system of qualification administration. The specific measures shall be enacted by the administrative department of construction under the State Council.

Under the Interim Measures for Offer and Acceptance of Tender Management of Property

Management in Early Stages (前期物業管理招標投標管理暫行辦法), which was promulgated by Ministry of Construction on June 26, 2003 and became effective on September 1, 2003, prior to the selection and engagement of property management enterprises by owners of properties and the general meeting of owners of properties, the construction unit of residences and non-residences within the same management area shall select and engage a qualified property management enterprise through tender. For a project with less than three bidders or small scale residences, the qualified property management enterprise may be selected and engaged by way of an agreement, which is subject to the approval of the real estate administrative departments of the local government at the district or county level where the property is located. Such tenders typically include open tenders and invitational tenders. Where a property management enterprise is selected through a tender, the tender inviter shall complete the work of the tender before obtaining the pre-sale permits for commodity properties.

INTELLECTUAL PROPERTY RIGHTS

China has adopted legislations related to intellectual property rights, including trademarks, patents and copyrights. China is a signatory party to the major intellectual property conventions, including the Paris Convention for the Protection of Industrial Property, the Madrid Agreement concerning the International Registration of Marks and Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, the Patent Cooperation Treaty, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure, and the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPs").

Regulations on Trademarks

The Trademark Law of the PRC (中華人民共和國商標法) was promulgated in August 1982 (amended on February 22, 1993, October 27, 2001 and August 30, 2013) and Implementation Regulations on the Trademark Law of the PRC (中華人民共和國商標法實施條例) was promulgated on August 3, 2002 by the State Council and amended on April 29, 2014. These laws and regulations provide the basic legal framework for the regulations of trademarks in China. In China, registered trademarks include commodity trademarks, service trademarks, collective marks and certificate marks.

The Trademark Office under SAIC is responsible for the registration and administration of trademarks throughout the country. Trademarks are granted on a term of 10 years. Six months prior to the expiration of the 10-year term, an applicant can renewed the application and reapply for trademark protection.

Under the Trademark Law, any of the following acts may be regarded as an infringement of the exclusive right to use of a registered trademark:

- use of a trademark that is identical with or similar to a registered trademark on the same or similar kind of commodities of the trademark registrant's without the authorization of the trademark registrant;

- sale of commodities infringing upon the exclusive right to use the registered trademark;

- counterfeiting or making, without authorization, representations of a registered trademark, or sale of such representation of a registered trademark; and

- otherwise infringing upon other person's exclusive right to use a registered trademark and cause damages.

Violation of the Trademark Law may result in the imposition of fines, confiscation and destruction of the infringing commodities.

Trademark license agreements must be filed with the Trademark Office under the SAIC and Commerce or its regional counterparts. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities.

Regulations on Domain Names

The Measures for the Administration of Internet Domain Names (互聯網域名管理辦法) was promulgated by the Ministry of Industry and Information Technology of the PRC on August 24, 2017 and became effective on November 1, 2017. These measures regulate the registration of domain names in Chinese with the Internet country code of ".cn."

The Measures on Top Level Domain Names Dispute Resolution (中國互聯網絡信息中心國家頂級域名爭議解決辦法) were promulgated by the China Internet Network Information Center on November 11, 2014 and became effective on the same date. These measures require domain name disputes to be submitted to institutions authorized by the China Internet Network Information Center for resolution.

LABOR PROTECTION AND SOCIAL INSURANCE

As our operation is mainly based in China, our PRC subsidiaries are required to comply with Chinese labor- related laws and regulations and provide compensation and other benefits to our employees, such as provision of vocational trainings and contribution to social insurance and housing provident funds.

According to the Labor Law of the PRC (中華人民共和國勞動法), which was promulgated by NPC on July 5, 1994 and amended on August 27, 2009, an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labor safety and health system, stringently implement national protocols and standards on labor safety and health, conduct labor safety and health education for workers, guard against labor accidents and reduce occupational hazards. Labor safety and health facilities must comply with relevant national standards. An employer must provide workers with the necessary labor protection gear that complies with labor safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupational hazards. Laborers engaged in special operations shall have received specialized training and obtained the pertinent qualifications. An employer shall develop a vocational training system. Vocational training funds shall be set aside and used in accordance with national regulations and vocational training for workers shall be carried out systematically based on the actual conditions of the company.

The Law on Labor Contract of the PRC (中華人民共和國勞動合同法), which was promulgated by NPC on June 29, 2007 and amended on December 28, 2012, and the Implementation Regulations on Labor Contract Law (勞動合同法實施條例) (Order No. 535 of the State Council), which was promulgated on September 18, 2008 and became effective since the same day, regulate both parties through a labor contract, namely the employer and the employee, and contain specific provisions involving the terms of the labor contract. It is stipulated under the Law on Labor Contract and the Implementation Regulations on Labor Contract Law that a labor contract must be made in writing. An employer and an employee may enter into a fixed-term labor contract, an un-fixed term labor contract, or a labor contract that concludes upon the completion of certain work assignments, after reaching agreement upon due negotiations. An employer may legally terminate a labor contract and dismiss its employees after reaching agreement upon due negotiations with the employee or by fulfilling the statutory conditions. Pursuant to the Law on Labor Contract, labor contracts concluded prior to the enactment of the said law and subsisting within the validity period of the said law shall continue to be honored. With respect to a circumstance where a labor relationship has already been established but no formal contract has been made, a written labor contracts shall be entered into within one month from the effective date of the Law on Labor Contract law.

The Employment Promotion Law of the PRC (中華人民共和國就業促進法), which became effective on January 1, 2008 and amended on April 24, 2015, requires that individuals have equal employment opportunities, both in hiring and in employment terms, without discrimination on the basis of ethnicity, race, gender, religious belief, communicable disease or rural residence. Under this law, enterprises are also required to provide employees with vocational training. Administrative authorities at the county level or above are responsible for implementing policies to promote employment.

According to the Temporary Regulations on the Collection and Payment of Social Insurance Premium (社會保險費征繳暫行條例), the Regulations on Work Injury Insurance (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例) and the Trial Measures on Employee Maternity Insurance of Enterprises (企業職工生育保險試行辦法), enterprises in the PRC shall provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premiums for or on behalf of employees.

The Law on Social Insurance of the PRC (中華人民共和國社會保險法) (No. 35 of the President), which was promulgated on October 28, 2010 has consolidated pertinent provisions for basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

According to the Regulations on the Administration of Housing Provident Fund (住房公積金管理條例), which was promulgated on April 3, 1999 and amended on March 24, 2002, housing provident fund contributions paid up in deposit by an individual employee and housing provident fund contributions paid up in deposit by his or her employer shall belong to the individual employee.

MAJOR TAXES APPLICABLE TO REAL ESTATE DEVELOPERS AND OPERATORS

Since our revenue is mainly derived from our operations in China, we are subject to Chinese taxation regimes.

Corporate Income Tax

Prior to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得税法, "new Enterprise Income Tax Law") and its implementation rules that became effective on January 1, 2008, our PRC subsidiaries and joint ventures were generally subject to a 33% corporate income tax. Under the new income tax law, effective from January 1, 2008 and amended on February 24, 2017, a unified corporate income tax rate is set at 25% for both domestic enterprises and foreign-invested enterprises, with the exception of those enterprises that enjoyed preferential tax treatment according to laws and regulations before the new Corporate Income Tax Law took effect. However, there will be a five-year transition period for enterprises established before March 16, 2007 and enjoying a preferential income tax rate under the previous tax laws and administrative regulations.

Simultaneously, under the new EIT Law and its implementation rules, enterprises established under the laws of foreign jurisdictions with "de facto management body" located in China are treated as "resident enterprises" for PRC tax purposes, and will be subject to PRC income tax on their worldwide income. Under the implementation rules of the new Corporate Income Tax Law, a "de facto management body" is defined as a body that has real and overall management control over the business, personnel, accounts and properties of an enterprise.

In addition, dividends paid by a PRC subsidiary to its foreign shareholder will be subject to a withholding tax at a rate of 10% unless such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement. According to the tax treaty entered into between the Mainland China and Hong Kong in August 2006, dividends paid by a foreign-invested enterprise in the Mainland China to its shareholders in Hong Kong will be subject to a withholding tax at a rate of 5% if such Hong Kong shareholder directly holds a 25% or more interest in the Mainland China enterprise.

SAT issued the Measures for Handling Corporate Income Tax on Real Estate Development and Operation (房地產開發經營業務企業所得税處理辦法) on March 6, 2009, with retrospective effect from January 1, 2008 and amended on June 16, 2014. The circular provides that the gross profit margin for tax calculation of the sale of uncompleted development product by an enterprise shall be determined by the state taxation bureau and local taxation bureau of each province, autonomous region and municipality directly under the Central Government pursuant to the following stipulations. For development products located in the city proper and suburbs of cities in which the People's Governments of provinces, autonomous regions, municipalities directly under the Central Government and cities specifically designated in the state plan are located, it shall not be lower than 15%; for development products located in the city proper and suburbs of prefectures or prefecture-level cities, it shall not be lower than 10%; and for development products located in other areas, it shall not be lower than 5%.

On May 12, 2010, SAT issued the Circular on Issues Concerning Conditions for Confirmation of the Completion of Real Estate Development Products (關於房地產開發企業開發產品完工條件確認問題的通知), which clarifies the conditions for confirming the completion of real estate development products. According to the circular, regardless of whether the project quality has passed the inspection and acceptance, or whether the completion filing and final accounting procedures have been completed, any real estate development product meeting one of the following conditions shall be deemed as a completed development product: (1) The enterprise starts to process the delivery procedure of the development product (including the check-in procedure); (2) The development product has started to be put into use. The developer shall timely settle the tax costs of the development product, and compute its taxable income of the year.

On December 10, 2009, SAT issued the SAT Circular No. 698 with retrospective effect from January 1, 2008, which was amended on December 12, 2013 and February 3, 2015, pursuant to which, except for the purchase and sale of equity through a public securities market, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas holding company (an "Indirect Transfer"), and the overseas holding company is located in a tax jurisdiction that has an effective tax rate of less than 12.5% or does not tax foreign income of its residents, the non-resident enterprise, being the transferor, must report such Indirect Transfer to the competent tax authority relating to the PRC resident enterprise. Using a "substance over form" approach, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such an Indirect Transfer may be subject to PRC tax at a rate of up to 10%. SAT Circular No. 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income in respect of the transaction.

On February 3, 2015, the SAT issued the SAT Circular No. 7, which abolished certain provisions in SAT Circular No. 698 and provided more guidance on a number of issues in the SAT Circular No. 698.

If a non-resident enterprise indirectly transfers assets (including equity interests) in a PRC resident enterprise by entering into arrangements without reasonable commercial purposes but to evade EIT, the nature of this indirect transfer shall be reclassified and recognized as a direct transfer of assets of a PRC resident enterprise. Assets include (i) properties of an establishment or place in the PRC, (ii) real estate in the PRC or (iii) equity investment in a PRC resident enterprise and other assets directly held by such non-resident enterprise and for which the proceeds from the transfer of such assets shall be subject to EIT as specified by the PRC tax laws (collectively the "PRC Taxable Assets"). An indirect transfer of the PRC Taxable Assets refers to transactions with the same or similar substantive results as a direct transfer of the PRC Taxable Assets arising from a transfer by a non-resident enterprise of equity interest or other similar interest in an overseas enterprise (excluding the PRC resident enterprises registered overseas) that directly or indirectly holds the PRC Taxable Assets, including a change in overseas enterprise's shareholders as a result of reorganization of such non-resident enterprise.

The relevant provisions in SAT Circular No. 7 are not applicable if the overall arrangement regarding the indirect transfer of the PRC Taxable Assets meets any of the following circumstances: (1) such non-resident enterprise obtains income from an indirect transfer of PRC Taxable Assets by acquiring and disposing of the equity interests of the same offshore listed company in a public market ("Public Market Safe Harbor"); or (2) such non-resident enterprise directly holds and transfers the PRC Taxable Assets in accordance with applicable tax treaty or arrangement which exempts the transfer from relevant enterprise income tax in the PRC.

If the above exemptions do not apply, transfers of shares by shareholders which are non-resident enterprises may be re-defined and recognized as a direct transfer of the PRC Taxable Assets if it is determined that such arrangements have no reasonable commercial purposes but to evade the EIT.

SAT Circular No. 7 provides that the overall circumstances of such transfer shall be considered and the following relevant factors shall all be analyzed in determining whether an indirect transfer of the PRC Taxable Assets has a reasonable commercial purpose, which should be determined on a case-by-case basis: (1) whether the main value of the equity of the overseas enterprise is, directly or indirectly, sourced from the PRC Taxable Assets; (2) whether the assets of the overseas enterprise are, directly or indirectly, mainly comprised of investments in the PRC, or whether its income is, directly or indirectly, mainly sourced from the PRC; (3) whether the actual functions performed and risks undertaken by the overseas enterprises and its subsidiaries which, directly or indirectly, hold the PRC Taxable Assets can prove the economic substance of the corporate structure; (4) the existence duration of the shareholders, business model and related organizational structure of the overseas enterprise; (5) the information regarding overseas income tax payment for the indirect transfer of the PRC Taxable Assets; (6) whether the indirect investment or indirect transfer of the PRC Taxable Assets by the equity transferor can be substituted by a direct investment or a direct transfer of the PRC Taxable Assets; (7) the information regarding the tax treaties or tax arrangements applicable to the income from indirect transfer of the PRC Taxable Assets; and (8) other relevant factors.

SAT Circular No. 7 also provides that, unless covered by the exemptions stipulated, an indirect transfer shall be directly deemed to have no reasonable commercial purpose if it meets all the following circumstances ("Deemed Negative Determination"): (1) 75% or more of the equity value of the overseas enterprise is, directly or indirectly, derived from the PRC Taxable Assets; (2) at any time within one year before the indirect transfer of the PRC Taxable Assets, 90% or more of the total assets of the overseas enterprise (not including cash) are, directly or indirectly, comprised of investments in PRC, or 90% or more of the overseas enterprise's income in the year before the indirect transfer of the PRC Taxable Assets is, directly or indirectly, derived from PRC; (3) the overseas enterprise and its subsidiaries which, directly or indirectly, hold the PRC Taxable Assets are incorporated in a country (region) to meet the organizational form as required by law, but actually only perform limited functions and undertake limited risks which are not enough to substantiate their economic substance; and (4) the overseas income tax payable for the indirect transfer of the PRC Taxable Assets outside of the PRC is less than the possible tax burden in the PRC on the direct transfer of the PRC Taxable Assets in the PRC.

SAT Circular No. 7 also provides that an indirect transfer of the PRC Taxable Assets shall be deemed to have reasonable commercial purpose if it meets all the following conditions: (1) parties to the indirect transfer have one of the following equity holding relationships: (a) the transferor, directly or indirectly, holding over 80% equity interest in the transferee; (b) the transferee, directly or indirectly, holding over 80% equity interest in the transferor; or (c) over 80% equity interest in each of the transferee and the transferor is held, directly or indirectly, by the same party. To the extent that the offshore subject company derives directly and indirectly more than 50% of its value from real estate in the PRC, the equity shareholding threshold shall be 100%; for the aforesaid indirect shareholding, the equity interest shall be calculated by multiplying the equity shareholding percentage at each level; (2) The current indirect transfer does not result in a reduction in the PRC income tax payable on the proceeds from subsequent potential indirect transfers of the PRC Taxable Properties; and (3) The transferee pays the consideration for the indirect transfer solely in the form of its equity interest or the equity interest of entities with equity controlling holding relationship (excluding equity interest in publicly listed companies).

Value-Added Tax (VAT)

Pursuant to the Notice on Adjustment of Transforming Business Tax to Appreciation Tax (關於全面推開營業税改征增值税試點的通知) (Cai Shui [2016] No. 36) issued on March 23, 2016 and implemented on May 1, 2016 by the MOF and the SAT, the pilot program of replacing business tax with appreciation tax shall be implemented nationwide effective from May 1, 2016 and all business tax payers in industry areas, including construction, real estate, finance and consumer service, shall be included in the scope of the pilot program and pay appreciation tax instead of business tax. According to the said regulation, the sale of self-developed old real estate projects (refers to real estate projects launched time before April 30, 2016 stating on the construction works commencement permit) by common taxpayer among real estate developers shall be subject to a simple tax rate of 5%, whereas, for self-developed real estate after May 1, 2016 by common taxpayer among real estate developers shall be subject to a general method tax rate of 5%. Moreover, real estate developers selling real estate project by advance payment will be subject to an appreciation tax of 3% when receiving the advance payment.

Land Appreciation Tax (LAT)

Under the Interim Regulations on Land Appreciation Tax of the PRC (中華人民共和國土地增值税暫行條例) promulgated by the State Council on December 13, 1993 and effective from January 1, 1994 and amended on January 8, 2011, as well as its implementation rules issued on January 27, 1995, land appreciation tax is payable on the appreciation value derived from the transfer of land use rights and buildings or other facilities on such land, after deducting the "deductible items" that include the followings:

- Payment made to acquire land use rights;
- Costs and charges incurred in connection with land development;
- Construction costs and charges for newly constructed buildings and facilities, or assessed value for old buildings and facilities;
- Taxes in connection with the transfer of real estates; and
- Other deductible items allowed by MOF.

The land appreciation tax shall adopt four levels of progressive tax rates, ranging from 30% to 60% of the appreciation value as follows:

Appreciation value	LAT rate
Portion not exceeding 50% of deductible items	30%
Portion over 50% but not more than 100% of deductible items	40%
Portion over 100% but not more than 200% of deductible items	50%
Portion over 200% of deductible items	60%

Exemption from LAT is available to the following cases:

- Taxpayers constructing ordinary residential properties for sale, where the appreciation amount does not exceed 20% of the sum of deductible items;

- Real estates taken over or recovered according to laws due to the construction needs of the State;

- Relocation due to the need of city planning and national construction;

- Due to redeployment of work or improvement of living standard, transfer by individuals of originally self-occupied residential properties after five years or more of self-residence with the approval of the tax authorities.

SAT issued the Circular on Careful Management of Land Appreciation Tax Collection (關於認真做好土地增值稅徵收管理工作的通知) on July 10, 2002 to require local authorities to optimize the withholding methods of LAT. This requirement is restated in the Circular of SAT on Further Strengthening Administration Work in Relation to the Collection of Urban Land Use Tax and Land Appreciation Tax (國家稅務總局關於進一步加強城鎮土地使用稅和土地增值稅徵收管理工作的通知) issued on August 5, 2004 by SAT. On December 28, 2006, SAT promulgated the (Circular Concerning the Administration of Settlement of Land Appreciation Tax Imposed on Real Estate Developers (關於房地產開發企業土地增值稅清算管理有關問題的通知), effective from February 1, 2007. Starting from February 1, 2007, real estate developers shall settle the LAT in connection with their real estate development projects with the competent tax bureau at applicable tax rates. LAT shall be settled on the basis of the real estate development projects examined and approved by the relevant authority, and projects developed in phases shall be settled on the basis of the project phase.

LAT must be paid if a project meets any one of the following requirements:

- The real estate development project has been completed and sold out;

- The entire uncompleted and unsettled development project has been transferred; or

- The land use right of the relevant project has been transferred.

In addition, the competent tax authorities may require a real estate developer to settle the LAT in any one of the following circumstances:

- For completed real estate development projects, the transferred GFA represents more than 85% of the total saleable GFA, or if the proportion is less than 85%, the remaining saleable GFA has been leased out or used by the developer;

- The project has not been sold out three years after obtaining the sale or pre-sale permit;

- The developer applies for cancellation of tax registration without having settled the LAT; or

- Other conditions stipulated by the provincial tax authorities.

The provincial tax authorities will, taking into account of the local practical conditions, stipulate specific rules or measures on the management of the LAT settlement as required by the circular.

SAT issued the Circular on the Publication of the Administrative Rules for the Settlement of Land Appreciation Tax (關於印發《土地增值稅清算管理規程》的通知) on May 12, 2009, effective from June 1, 2009, which reiterated the above standards and requirements in the circular. On May 19, 2010, SAT issued the Circular on Issues Concerning Settlement of Land Appreciation Tax (關於土地增值稅清算有關問題的通知), which clarifies the revenue recognition in the settlement of land appreciation tax and other relevant issues. According to the circular, in the settlement of land appreciation tax, if the sales invoices of commodity housing are issued in full, the revenue shall be recognized based on the amount indicated in the invoices; if sales invoices are not issued or are issued in part, the revenue shall be recognized based on the purchase price and other income indicated in the sales contract signed by both parties. If the area of a commodity housing specified in a sales contract is inconsistent with the actual area measured by the relevant authorities and the purchase price has already been made up or returned before the settlement of land appreciation tax, adjustments shall be made in the calculation of land appreciation tax. The circular provides that the deed tax paid by a real estate developer for obtaining land use right shall be treated as the "relevant fees paid in accordance with the uniform regulations of the State" and be deducted as the "amount paid for obtaining land use right".

On May 25, 2010, SAT published the Circular on Strengthening the Collection and Administration of Land Appreciation Tax (關於加強土地增值稅征管工作的通知) to require all local governments to scientifically formulate the withholding tax rate and strengthen the withholding of land appreciation tax. According to the circular, all local governments shall make adjustments to the current withholding rate. Apart from indemnificatory housing, the withholding rate of provinces in the eastern region shall not be lower than 2%, the provinces in the central and northeastern region shall not be lower than 1.5% and the provinces in western region shall not be lower than 1%. The local governments shall determine the appropriate withholding rates applicable to different types of real estates.

Pursuant to the Interim Measures on the Management of Value Added Tax of Self-developed Real Estate Project by the Sale of Real Estate Developers (房地產開發企業銷售自行開發的房地產項目增值稅徵收管理暫行辦法) issued on March 31, 2016 and implemented on May 1, 2016 by SAT, the real estate developer which sell self- developed real estate projects shall pay the appreciation tax ("VAT"). VAT is payable by taxpayers in the calendar month immediately following receipt of the presale proceeds of self-developed real estates in accordance with the following formula: VAT = prepayments ÷ (1+ applicable taxable rate or levy rate) × 3%. Where the method of general VAT taxation is applicable, the applicable taxable rate is 11%, and where the method of simplified VAT taxation is applicable, the levy rate is 5%.

Deed Tax

Under the Interim Regulations on Deed Tax of the PRC (中華人民共和國契稅暫行條例) promulgated by the State Council on July 7, 1997 and effective from October 1, 1997, deed tax is chargeable to transferees of land use right and/or ownership of real estates in the PRC. These taxable transfers include:

- Grant of state-owned land use rights;
- Sale, gift and exchange of land use rights; and
- Sale, gift and exchange of buildings.

Deed tax rate is from 3% to 5% subject to determination by local governments at the provincial level in light of the local conditions.

On September 29, 2010, SAT, MOF and MOHURD issued the Circular on Adjusting the Preferential Policies on Deed Tax and Individual Income Tax in Real Estate Deals (關於調整房地產交易環節契稅個人所得稅優惠政策的通知), effective from October 1, 2010, which provides that where an individual purchases an ordinary house as the sole house for his/her family (family members include the purchaser and his/her spouse and minor children, hereinafter the same) to live in, deed tax thereon shall be reduced by half. Where an individual purchases an ordinary house of 90 sq.m. or less as the sole house for his/her family to live in, the deed tax shall be reduced and levied at the rate of 1%. The tax authority shall inquire about the deed tax payment record of a taxpayer. In respect of individual purchase of an ordinary house that fails to satisfy the above requirements, no preferential tax policies set out above may be enjoyed.

Pursuant to the Notice on Adjustment of Preferential Treatment Policies in Respect of Deed Tax and Business Tax on Real Estate Transactions (關於調整房地產交易環節契稅、營業稅優惠政策的通知) promulgated by MOF, SAT and MOHURD on February 17, 2016 and became effective on February 22, 2016, the rate of deed tax payable for real estate transactions is adjusted downward as follows:

- for an individual purchasing the only residential property for his/her household, the rate of deed tax is adjusted downward to 1% for a property of 90 sq.m. or less and to 1.5% for a property of more than 90 sq.m.; and

- for an individual purchasing the second residential property for his/her household to improve the living conditions, the rate of deed tax is reduced to 1% for a property less than 90 sq.m. or less and to 2% for a property of more than 90 sq.m.

Beijing, Shanghai, Guangzhou and Shenzhen are not subject to the above deed tax preferential treatment policies temporarily.

Urban Land Use Tax

Pursuant to the Interim Regulations on Urban Land Use Tax of the PRC (中華人民共和國城鎮土地使用稅暫行條例) promulgated by the State Council on September 27, 1988 and revised on December 31, 2006 and amended on January 8, 2011 and December 7, 2013, respectively, the urban land use tax is levied based on the area of the relevant land. As of January 1, 2007, the annual tax on each sq.m. of urban land shall be between RMB0.6 and RMB30.0.

Real Estate Tax

Under the Interim Regulations on Real Estate Tax of the PRC (中華人民共和國房產稅暫行條例) promulgated by the State Council on September 15, 1986 and effective from October 1, 1986 and amended on January 8, 2011, the real estate tax is 1.2% if calculated on the basis of the residual value of the real estate and 12% if calculated on the basis of the rental of the real estate.

Stamp Duty

Under the Interim Regulations on Stamp Duty of the PRC (中華人民共和國印花稅暫行條例) promulgated by the State Council on August 6, 1988 and amended on January 8, 2011, and effective from October 1, 1988, for transfer instruments of property rights, including those in respect of property ownership transfer, the duty rate is 0.05% of the amount stated therein; for permits and certificates relating to rights, including real estate title certificates and certificates of land use right, stamp duty is levied on an item-by-item basis of RMB5.0 per item.

Urban Maintenance and Construction Tax

Under the Interim Regulations on Urban Maintenance and Construction Tax of the PRC (中華人民共和國城市維護建設稅暫行條例) promulgated by the State Council on February 8, 1985 and amended on January 8, 2011, starting from 1985, any taxpayer of product tax, value-added tax or business tax, whether an enterprise or an individual, is liable for an urban maintenance and construction tax. The tax rate is 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer whose domicile is not in any urban area, county or town.

On October 18, 2010, the State Council issued the Circular on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested (關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知), which provides that, starting from December 1, 2010, the "Interim Regulations on Urban Maintenance and Construction Tax of the People's Republic of China" promulgated in 1985 shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners. Laws, regulations, rules and policies on urban maintenance and construction tax promulgated by the State Council and the competent finance and tax authorities under the State Council since 1985 shall also be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

Education Surcharge

Under the Interim Provisions on Imposition of Education Surcharge (徵收教育費附加的暫行規定) promulgated by the State Council on April 28, 1986 and revised on June 7, 1990, August 20, 2005 and January 8, 2011, any taxpayer of value-added tax, business tax or consumption tax, whether an individual or an enterprise, is liable for an education surcharge, unless such taxpayer is required to pay a rural area education surcharge as provided by the Circular of the State Council on Raising Funds for Schools in Rural Areas (國務院關於籌措農村學校辦學經費的通知).

On October 18, 2010, the State Council issued the Circular on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals, which provides that, starting from December 1, 2010, the Interim Provisions on Imposition of Education Surcharge promulgated in 1986 shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners. Laws, regulations, rules and policies on education surcharge promulgated by the State Council and the competent finance and tax authorities under the State Council since 1986 shall also be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

FOREIGN EXCHANGE CONTROL

As the Company, incorporated in the Bermuda with limited liability, is a foreign investor under Chinese laws, we are subject to foreign currency regulations that are related to capital contribution and repatriation of dividends and other proceeds.

General Regulations

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange control and is not freely convertible into foreign exchange at the time being. SAFE, under the authority of PBOC, is empowered to administer all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Prior to December 31, 1993, a quota system was used for the management of foreign exchange in the PRC. Any enterprise requiring foreign currency was required to obtain a quota from the local SAFE before it could convert the Renminbi into foreign currency through the Bank of China or other designated banks. Such conversion had to be effected at the official rate prescribed by SAFE on a daily basis.

The principal law governing foreign exchange in the PRC is the PRC Administrative Regulations on Foreign Exchange (《中華人民共和國外匯管理條例》, the "**Foreign Exchange Regulations**"). The Foreign Exchange Regulations was enacted by the State Council on January 29, 1996 and implemented on April 1, 1996. On January 14, 1997 and August 5, 2008, the State Council amended the Foreign Exchange Regulations. According to the Foreign Exchange Regulations, the RMB is freely convertible for "current account transactions", which refers to any transaction account for international receipts and payments involving goods, services, earnings and frequent transfers. For "capital account transactions" which refers to any transaction account for international receipts and payments that result in any change in external assets and liabilities, including, inter alia, capital transfers, direct investments, securities investments, derivatives and loans, prior approval of and registration with the SAFE or its local branches is generally required.

The Administrative Regulations on Foreign Exchange was amended by the State Council on August 1, 2008 and became effective on August 5, 2008. Under the revised Administrative Regulations on Foreign Exchange, the compulsory settlement of foreign exchange is dropped. As long as the foreign exchange income and expenses under the current accounts are based upon real and legal transactions, the foreign exchange income generated from current account transactions may be retained or sold by individuals and entities to financial institutions engaged in foreign currency settlement and sale according to the provisions and terms to be set forth by SAFE. Whether to retain or sell the foreign exchange income generated from capital account transactions to financial institutions engaged in foreign currency settlement and sale is subject to the approval of SAFE or its branches, except otherwise stipulated by the State. Foreign exchange or Renminbi funds for settlement under the capital account must be used in the way as approved by SAFE and its branches, and SAFE and its branches are empowered to supervise the use of the foreign exchange or Renminbi funds for settlement under the capital account and the alterations of the capital accounts.

According to the SAFE Notice 19, for actual needs of business operation, foreign invested enterprises may convert their foreign currency capital into Renminbi at their own discretions. The ratio of the discretionary settlement of foreign currency capital of foreign enterprises is tentatively set at 100%, which is subject to adjustment by SAFE in accordance with the status of international balance of payment. In addition, the foreign currency registered capital of a foreign-invested enterprise that has been settled in Renminbi may only be used for purposes within the business scope approved by the applicable governmental authority and shall not be used for the following purposes: (i) directly or indirectly used for expenditures prohibited by the laws and regulations or beyond the enterprise's business scope; (ii) directly or indirectly used for securities investments unless otherwise specified by laws and regulations; (iii) directly or indirectly used for providing Renminbi entrusted loans (unless permitted in the business scope), repaying loans between enterprises (including third party cash advance), or repaying bank loans it has obtained and on-lent to third parties; (iv) used to purchase non-self-use real estate, except for foreign invested real estate enterprises. Furthermore, foreign invested enterprises whose main business is investment are allowed to directly settle their foreign currency capital and transfer that amount into the account of the enterprise being invested, provided that the domestic investment project is real and compliant. For an ordinary foreign invested enterprise intending to engage in domestic equity investment using Renminbi settled from foreign currency capital, Circular 19 stipulates that the enterprise being invested shall first complete a domestic reinvestment registration and open a foreign currency settlement account with local foreign exchange authority (bank), after which the investing enterprise may transfer the Renminbi settled (consisting of the actual amount of the investment) to the account opened by the enterprise being invested.

Renminbi Exchange Rate Regulations

On January 1, 1994, the dual exchange rate system for Renminbi was abolished and replaced by a single controlled floating exchange rate system, which was based on market demand and supply. Pursuant to such system, PBOC set and published the daily Renminbi-US dollar exchange rate. Such exchange rate was determined with reference to the transaction price for RMB-US dollar in the inter-bank foreign exchange market on the previous day. PBOC would also, with reference to exchange rates in the international foreign exchange market, announced the exchange rates of the Renminbi against other major foreign currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the rate announced by PBOC.

On July 21, 2005, PBOC announced that, beginning from July 21, 2005, China will implement a regulated and managed floating exchange rate system based on market supply and demand and by reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the US dollar only. PBOC will announce the closing price of the Renminbi exchange rate, such as the trading price of US dollar against RMB, in the inter- bank foreign exchange market after the closing of the market on each business day, setting the central parity for trading of Renminbi on the following business day.

Foreign Exchange Registration of Offshore Special Purpose Companies

On October 21, 2005, SAFE issued the Circular on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知, "No. 75 Circular"), which became effective on November 1, 2005. According to the circular, a "special purpose company" refers to an offshore company established or indirectly controlled by a PRC resident for the purpose of carrying out offshore financing with his/her assets or equity interest in a domestic enterprise. Prior to establishing or controlling such a special purpose company, each PRC resident must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch.

SAFE issued the Circular on Further Improving and Adjusting the Direct Investment Foreign Exchange Administration Policies (關於進一步改進和調整直接投資外匯管理政策的通知) on November 19, 2012, effective on December 17, 2012 and amended on May 4, 2015. The circular contains an attachment which made specific provisions on the implementation of various matters, including the foreign exchange registration and alteration of special purpose company, establishment of special purpose company and merger and acquisition of domestic enterprises, as well as foreign exchange registration of newly-established foreign-invested enterprises and merger and acquisition of domestic enterprises by foreign-invested enterprises.

On July 4, 2014, SAFE issued the Circular on Issues Relating to the Administration of Foreign Exchange in Overseas Investment, Fund-raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知, "No. 37 Circular") to further simplify and facilitate the cross-border capital transactions involved in the investment and financing activities carried out by domestic residents through special purpose companies, which became effective on the date of promulgation. According to the No. 37 Circular, a "special purpose company" refers to an offshore company that are directly established or indirectly controlled for the purpose of investment and financing by Mainland China residents (including Mainland China institutions and Mainland China individuals) with their legitimate holdings of the assets or interests in Mainland China enterprises, or their legitimate holdings of overseas assets or interests. Prior to making contribution to a special purpose company with legitimate holdings of domestic or overseas assets or interests, a Mainland China resident shall apply to the relevant local SAFE branch for foreign exchange registration of overseas investment. The No. 75 Circular was repealed on the effective date of the No. 37 Circular.

On February 13, 2015, SAFE issued the Circular on Issues Relating to the Policies of the Foreign Exchange Administration in Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知, "No. 13 Circular"), which came into effect on June 1, 2015, to further simplify the procedures of foreign exchange administration applicable to direct investment. According to the No. 13 Circular, banks shall directly examine and handle foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment including the foreign exchange registration under the No. 37 Circular.

Special Foreign Exchange Regulations on Real Estate Enterprises

On September 1, 2006, SAFE and Ministry of Construction jointly issued the Circular on Regulating Issues Relevant to Administration of Foreign Exchange in the Real Estate Market (關於規範房地產市場外匯管理有關問題的通知) (amended on May 4, 2015). The circular provides that:

- where a FIREE fails to obtain a state-owned land use rights certificate or to make its capital fund for a development project reach 35% of the total investment to the project, the foreign exchange bureau shall not register the foreign debt or approve the settlement of foreign debt;

- where a foreign institution or individual acquires a domestic real estate enterprise but fails to pay the transfer price in a lump sum with its (his) own fund, the foreign exchange bureau shall not register the foreign exchange income from the transfer of equities;

- the domestic and foreign investors of a FIREE shall not reach an agreement including any clauses which promise a fixed return or fixed revenue in any disguised form to any party, otherwise the foreign exchange bureau will not handle the foreign exchange registration or registration alteration for the foreign-invested enterprise; and

- the funds in the foreign exchange account exclusive for foreign investors opened by a foreign institution or individual in a domestic bank shall not be used for real estate development or operation. The circular also provides for the foreign exchange handling process related to the purchase and sale of commodity houses in the PRC by branches of overseas institutions established in the PRC, overseas individuals, Hong Kong, Macao or Taiwan residents and overseas Chinese.

DIVIDEND DISTRIBUTION

According to the Company Law of the PRC (中華人民共和國公司法), the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC (中華人民共和國中外合資經營企業法) and its Implementing Regulations, sino-foreign equity joint venture enterprises, or EJVs, in China may pay dividends only out of their accumulated profit, if any, determined in accordance with PRC accounting standards and regulations. After making up for any deficit in prior years pursuant to the PRC laws, an EJV in China is required to set aside each year as general reserves at least 10% of its after-tax profit, determined in accordance with PRC accounting standards and regulations, until the cumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends.

The shareholders of an EJV may, in their discretion, allocate a portion of the enterprise's after-tax profit to such enterprise's staff welfare and bonus funds. EJVs that are in deficit or liquidation may not distribute dividends.

ENVIRONMENTAL LAW

The PRC environmental laws and regulations include the PRC Environmental Protection Law (中華人民共和國環境保護法), the PRC Law on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), the PRC Law on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), the PRC Law on the Prevention and Control of Pollution From Environmental Noise (中華人民共和國環境噪聲污染防治法) and the PRC Law on the Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法) (collectively, the "Environmental Laws"). The Environmental Laws govern a broad range of environmental matters, including air pollution, noise emissions, sewage and waste discharge.

According to the Environmental Laws, all business operations that may cause environmental pollution and other public hazards are required to incorporate environmental protection measures into their plans and establish a reliable system for environmental protection. These operations must adopt effective measures to prevent and control pollution levels and harm caused to the environment in the form of gas waste, liquid and solid waste, dust, malodorous gas, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

According to the Environmental Laws, companies are also required to carry out an environment impact assessment before commencing construction of production facilities. They must install pollution treatment facilities that meet the relevant environmental standards to treat pollutants before discharge.

DIRECTORS

The Directors are entrusted with the responsibility for the overall management of our Company. The Directors are assisted by a team of experienced and qualified executive officers, each responsible for different functions. The particulars of the Directors as of the date of this information memorandum are set out below.

Name	Age	Position
Mr. YU Pan (余斌)	53	Chairman and Chief Executive Officer
Mr. WEN Xiaobing (文小兵)	49	Deputy Chief Executive Officer
Mr. WONG Lok (黃樂)	60	Executive Director
Mr. LI Weijing (李偉景)	30	Non-executive Director
Mr. CHOY Shu Kwan (蔡澍鈞)	63	Independent non-executive Director
Mr. CHENG Wing Keung, Raymond (鄭永強)	58	Independent non-executive Director
Ms. CHUNG Lai Fong (鍾麗芳)	50	Independent non-executive Director

Executive Directors

Mr. YU Pan (余斌), aged 53 joined the Company in December 2004 when he took control of the Company through acquisition of a controlling interest in the Company. Mr. YU has over 28 years of experience in the development of high-end residential, commercial and hotel projects in the PRC. He is a founder of the prestigious real estate company, Guangzhou Tianyu Holdings Group Limited (Formerly known as Guangzhou Tianyu Real Estate Development Company Limited), which was set up in July 1997 from which the Company acquired some projects in 2007. Mr. YU also acts as the chief executive officer of the Company, overseeing the strategic planning and corporate development of the Group.

Mr. WEN Xiaobing (文小兵), aged 49, has been appointed as executive director in November 2013. He is also the Deputy Chief Executive Officer of the Group and Chief Executive of Guangzhou head office in charge of human resources, design and business exploration functions in the PRC. Mr. WEN holds a Bachelor Degree in History from Beijing University (北京大學) and is a professionally qualified economist specialized in labor economics in the PRC. He has over 27 years of working experience in managerial positions in corporations in the PRC.

Mr. WONG Lok (黃樂), aged 60, joined the Company in August 2005. Mr. WONG has over 32 years of working experience in senior management of corporations engaged in property and general trading in Hong Kong and the PRC.

Non-executive Director

Mr. LI Weijing (李偉景), aged 30, was appointed as non-executive director in August 2017. Mr. Li holds a Bachelor Degree (First Class Honour) in Business Administration (major in Accounting) in The Chinese University of Hong Kong. He passed the National Judicial Examination in 2012 and has obtained legal qualification in the People Republic of China in the same year. He further passed the Qualification Programme of Hong Kong Institute of Certificated Public Accountants in 2013. Mr. Li also passed and obtained certificate for Passing the National Uniform CPA Examination of the PRC in 2017. Mr. Li has worked as an associate director of Investment Banking Department in China Huarong International Holdings Limited since 2014 and currently is a managing director of capital market department of China Huarong International Holdings Limited.

Independent non-executive Directors

Mr. CHOY Shu Kwan (蔡澍鈞), aged 63, joined the Company in December 2004. Mr. CHOY holds a Master degree in Business Administration and has over 27 years of extensive experience in banking and investment management. He worked for the CITIC group for 20 years in Hong Kong. Before his resignation in 2007, he was the managing director of CITIC Capital Markets Limited. Mr. CHOY is also an independent non-executive director of Poly Property Group Co., Limited (Stock Code: 119).

Mr. CHENG Wing Keung, Raymond (鄭永強), aged 58, joined the Company in December 2004. Mr. CHENG is a practising solicitor in Hong Kong. He holds an honour degree in laws in The University of London and a Master degree of Business Administration awarded by The University of Strathclyde, Scotland. Mr. CHENG also holds a Diploma in Chinese Professional Laws in the Chinese University of Political Science and Law, the PRC. He has been appointed by the Hon Chief Justice Ma of the Court of Final Appeal as a Practising Solicitor Member of the Solicitors Disciplinary Tribunal Panel with effect from October 4, 2017. Besides, Mr. CHENG has also been appointed by The Government of Hong Kong Special Administrative Region as a member of the Panel of the Board of Review (Inland Revenue Ordinance) with effect from January 1, 2018. Mr. CHENG has over 30 years of experience in legal, corporate finance, company secretarial and listing affairs. He is an independent non-executive director in a listed company in Hong Kong, namely Sino Resources Group Limited (Stock Code: 223).

Ms. CHUNG Lai Fong (鍾麗芳), aged 50, joined the Company in December 2004. Ms. CHUNG is a practising barrister in Hong Kong. She holds a Bachelor of Laws (Honours) degree, a Bachelor of Arts (Honours) Degree in Accountancy and a Master of Laws in Chinese Law. Ms. CHUNG is also a fellow member of the Association of Chartered Certified Accountants (UK) and a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators (UK) and the Hong Kong Institute of Chartered Secretaries. She has over 22 years of professional experience in accounting, taxation, company secretarial, legal, regulatory and corporate affairs.

COMPANY SECRETARY

Ms. CHEUNG Lin Shun (張蓮順), aged 55, joined the Company in March 2005 and has been the Company Secretary of the Company since then. Ms. CHEUNG is also the Vice President in charge of all finance affairs at the corporate level of the Group. Ms. CHEUNG is a professionally qualified accountant in Hong Kong. She holds a Master degree in Professional Accountancy awarded by The Hong Kong Polytechnic University. Ms. CHEUNG is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. She has over 32 years of experience in auditing, corporate secretarial, accounting and corporate finance obtained from an international accounting firm and a number of listed companies in Hong Kong.

SENIOR MANAGEMENT

Mr. LIN Shenjie (林聖傑), aged 52, is the Vice President of the Guangzhou head office in charge of all general financial operations in the PRC. Mr. LIN is a Bachelor Degree graduate in finance and accountancy of Guangdong University of Finance & Economics (廣東財經大學) (formerly known as Guangdong University of Business Studies (廣東商學院)) and has over 27 years of working experience in finance and accounting in property development, direct investment in the PRC, Thailand and Hong Kong.

Mr. XIE Xiaohua (謝曉華), aged 47, is the Vice President of Guangzhou head office in charge of general project management, costing and coordinate the operations of projects. Mr. XIE graduated from Sun Yat-sen University (中山大學) with a Doctor's Degree in Science and holds a senior engineer certificate for geotechnical engineering. He has over 23 years of working experience in the area of engineering management in overall project development.

Mr. ZENG Fanyou (曾凡友), aged 42, is the Vice President of Guangzhou head office in charge of youth community project. Mr. ZENG graduated from Henan University School of Economics (河南財經學院) with a Bachelor's Degree in Economics and holds a Project Management Professional certificate. He has 17 years of working experience in property sales and marketing in the PRC, working for Zhu Jiang Real Estate Development Co., Ltd. and New World China Land Limited in the past.

Mr. TAN Yongqiang (譚永強), aged 54, is the Vice President of Guangzhou head office in charge of city development business that focus on the urban renewal projects in Guangzhou and administrative affairs at the Guangzhou head office. Mr. TAN graduated from South China University of Technology (華南理工大學) with Bachelor's Degree in Industrial and Civil Construction. He is also a postgraduate in Business Administration from Western Sydney University. Mr. TAN has over 21 years of working experience in project management and has worked in large-scale group in the PRC such as Yuexiu Group.

BOARD COMMITTEES

We have established an Audit Committee, a Remuneration Committee, a Nomination Committee and a Risk Management Committee. Each of the Board Committees has specific written terms of reference which deal clearly with their authority and duties.

Audit Committee

The Audit Committee is composed of Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong. Mr. CHOY Shu Kwan is the chairman of the Audit Committee.

The Audit Committee is primarily responsible for, among others, reviewing the integrity of accounts and financial reporting procedures, reviewing and overseeing the effectiveness of internal control systems, appointing external auditors and assessing their qualifications, independence and performance, and reviewing periodically the Group's accounts for compliance with applicable accounting standards, legal and regulatory requirements on financial disclosures.

Remuneration Committee

The Remuneration Committee is comprised of four Directors, Mr. YU Pan, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong. Ms. CHUNG Lai Fong is the chairwoman of the Remuneration Committee.

The Remuneration Committee is primarily responsible for, among other matters, making recommendations to the Board on our Company's overall policy and structure for all remunerations of Directors and senior management and reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives achieved.

Nomination Committee

The Nomination Committee is comprised of Mr. YU Pan, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond, and Ms. CHUNG Lai Fong. Mr. YU Pan is the chairman of the committee.

The Nomination Committee is primarily responsible for, among other matters, making recommendations to the Board on the procedures of appointment of Directors and the selection from individuals nominated for directorship, reviewing the structure, size and composition of the Board at least annually, and making recommendations on any proposed changes to the Board to complement the Group's corporate strategies.

Risk Management Committee

The Risk Management Committee is comprised of Mr. WEN Xiaobing, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong. Mr. WEN Xiaobing is the chairman of the Risk Management Committee.

The Risk Management Committee delegates its routine monitoring functioning to risk management team which assists the management to develop systems to highlight risks and controls to alleviate risks. The major roles and functions of the risk management team are to monitor and review the risk management system and advise the Board with respect to the effectiveness of and improvements to the existing system and to review the internal control policies associated with the management of risks to ensure adequate control procedures have been developed in daily management to identify and encounter the risks.

SHARE OPTIONS SCHEME

2015 Scheme

We adopted a share options scheme on June 9, 2015 (the "2015 Scheme") upon the expiry of the previous share options scheme adopted in 2005 (the "2005 Scheme") on August 3, 2015. The 2015 Scheme provides incentives and rewards to eligible participants who are Directors of Skyfame Realty (Holding) Limited and employees of the Group.

The 2015 Scheme will remain in force for ten years unless cancelled or amended. Under the 2015 Scheme, the Directors are authorized, at their absolute discretion, to invite any employee and any directors of any member of the Group or any entity in which the Group holds an equity interest who is eligible to participate in the 2015 Scheme, to take up the options.

As of the date of this information memorandum, 73,000,000 share options have been granted under the 2015 Scheme, of which 21,457,000 share options were exercised or cancelled in accordance with the terms of the 2015 Scheme and the number of share options outstanding is 51,543,000. While the number of outstanding share options granted under the 2005 Scheme as at the date of this information memorandum is 11,767,981.

2018 Scheme

We adopted a share award scheme on July 3, 2018 (the "2018 Scheme") to recognize contributions by and to provide incentives to employees of the Company.

The 2018 Scheme will remain in force for ten years commencing on July 3, 2018. Under the 2018 Scheme, the board of directors may, from time to time, at their absolute discretion, decide to purchase existing ordinary shares of the Company from the open market. The board of directors may select employees to participate in the 2018 Scheme and determine numbers of shares awarded to the selected employees. All award shall be in writing and approved by the board of directors.

The number of shares awarded under the 2018 Scheme shall not exceed 5% of the issued capital of the Company from time to time. The maximum aggregate number of share awarded to one employee shall not exceed 1% of the issued capital of the Company from time to time.

As of the date of this information memorandum, the following persons had interests or short positions in the Shares or underlying Shares which were recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance:

Name of shareholder	Nature	Number of ordinary shares held	Percentage of shareholding in our Company[2]
YU Pan[1]	Interest of controlled corporation and/or beneficial owner	1,909,028,407(L) 17,444,444(S)	72.39% 0.66%
Sharp Bright International Limited ("Sharp Bright")[1]	Interest of controlled corporation	1,680,664,407(L) 17,444,444(S)	63.73% 0.66%
Grand Cosmos Holdings Limited ("Grand Cosmos")[1]	Beneficial owner	1,680,664,407(L) 17,444,444(S)	63.73% 0.66%
Haitong International Holdings Limited	Interest of controlled corporation	1,065,444,444(L)	40.40%
Haitong International Securities Group Limited.	Interest of controlled corporation	1,065,444,444(L)	40.40%
Haitong Securities Co., Ltd.	Interest of controlled corporation	1,065,444,444(L)	40.40%
Haitong International Financial Solutions Limited	Person having a security interest in shares	1,000,000,000(L)	37.92%

Notes:

(1) The 1,909,028,407 Shares comprised 228,364,000 Shares directly held by Mr. YU Pan and 1,680,664,407 Shares held directly by Grand Cosmos. As the entire issued share capital of Grand Cosmos was held by Sharp Bright, Sharp Bright was deemed to be interested in the Shares in which Grand Cosmos was interested by virtue of the SFO. As the entire issued share capital of Sharp Bright was held by Mr. YU Pan, Mr. YU Pan was deemed to be interested in the Shares in which Sharp Bright was interested by virtue of SFO. Among the total of 1,909,028,407 Shares, (i) 1,000,000,000 Shares held by Grand Cosmos were charged in favour of Haitong International Financial Solutions Limited pursuant to a security deed dated December 14, 2017; and (ii) 235,000,000 Shares held by Grand Cosmos together with 86,860,000 Shares held by Mr. YU Pan were charged in favour of China Huarong International Holdings Limited pursuant to two collateral agreements both dated July 27, 2017; and (iii) 48,000,000 shares were charged by Grand Cosmos in favour of West Ridge Investment Company Limited pursuant to a share charge dated April 17, 2018 in relation to a redeemable exchangeable bond in the principal amount of HK$78,500,000 issued by Grand Cosmos to West Ridge Investment Company Limited which is exchangeable for 17,444,444 Shares at the initial exchange price of HK$4.5 per Share upon exercise of the exchange right in full.

(2) For the purpose of this section, the shareholdings percentage in the Company was calculated on the basis of 2,636,991,985 Shares in issue as of the date of this information memorandum.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between us or our consolidated subsidiaries and our directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated. Each of our related party transactions was entered into in the ordinary course of business, on fair and reasonable commercial terms, in our interests and the interests of our shareholders.

The table below sets forth certain material transactions between us and our related parties during the three years ended December 31, 2015, 2016 and 2017[(1)]:

	For the year ended December 31,			
	2015	2016	2017	
	RMB	RMB	RMB	US$
	(in thousand)			
Material transactions				
Companies beneficially owned by Mr. YU Pan and his spouse[(2)]	111	139,733	137,312	21,104
Compensation of key management personnel[(3)]	17,663	26,706	32,656	5,019

Notes:

(1) Except as disclosed in the table above, Mr. YU Pan and his spouse or a company controlled by him have provided legal charge over 321,860,000 Shares of the Company beneficially owned by Mr. Yu, personal guarantees and corporate guarantee for the Group's bank loans and trust loan in the years of 2015, 2016 and 2017.

(2) The types of transactions with companies beneficially owned by Mr. YU Pan and his spouse for 2016 and 2017 include: rental income received from office leasing, management fee paid to a related company and consideration received from disposal of completed properties under development in Yongzhou Project. The type of transactions for 2015 includes rental income received from office leasing.

(3) Compensation of key senior management including short-term benefits, other long-term benefits and equity-settled share-based payment expenses.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing business operations and to finance our working capital requirements, we have borrowed money or incurred indebtedness. As of December 31, 2017, our total interest-bearing bank loans and Corporate Bonds payables in the aggregate amounted to RMB4,287.6 million (US$659.0 million). Since December 31, 2017, we have, in the ordinary course of business, entered into additional financing arrangements to finance our property development and for general corporate purposes, which include, among others, (i) the financing arrangement with China Cinda Asset Management Holdings Company Limited, Chonqing Branch (中國信達資產管理股份有限公司(重慶市)分公司) ("**China Cinda**") in the principal amount of RMB2.3 billion (US$0.4 billion) with an interest rate of 12% per annum; (ii) the facility letter entered with the Agriculture Bank of China for a facility up to RMB350 million (US$53.8 million) with an interest rate of 5.8% per annum, which has been fully withdrawn; (iii) the January 2021 Bonds; (iv) the BEA Facility Loan and (v) further issuance under the Apastron MTB Programme. We set forth below a summary of the material terms and conditions of these loans and other indebtedness.

LOAN AGREEMENTS IN THE PRC

As of December 31, 2017, certain of our PRC subsidiaries have entered into loan agreements with local branches of various PRC banks and trust companies, including Nanyang Commercial Bank, China Minsheng Bank, Industrial and Commercial Bank of China Limited, China Resources Bank of Zhuhai, Sichuan Trust Co., Ltd and Huaxin Trust Co., Ltd. These loans are mainly used to finance payment of development costs and repay the other loans. For bank borrowings and trust loans to finance development costs, they have terms ranging from 1 to 10 years, which generally correspond to the construction periods of the particular projects. As of December 31, 2017, the aggregate outstanding amount under these bank loans totaled approximately RMB1,557.2 million (US$239.3 million), of which RMB295.1 million (US$45.4 million) was due within one year, and RMB1,150.6 million (US$176.8 million) was due between 2 and 5 years. As of December 31, 2017, the aggregate outstanding amount under these PRC trust loans totalled approximately RMB616.0 million (US$94.7 million) of which RMB216.0 million (US$33.2 million) was due within one year and RMB400.0 million (US$61.5 million) was due between 2 and 5 years. Our PRC loans are typically secured by land use rights and properties as well as guaranteed by certain of our PRC subsidiaries, the Company and Mr. Yu Pan and his spouse.

Interest

The principal amounts outstanding under our PRC loans generally bear interest at floating rates calculated with reference to the PBOC benchmark interest rate. Floating interest rates are generally subject to annual or quarterly review by the lending banks. Interest payments are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement. As of December 31, 2017, the weighted average effective interest rate on the aggregate outstanding amount of our PRC bank loans and trust loans was 6.9% per annum and 9.9% per annum respectively.

Covenants

Under these PRC loans, many of our subsidiary borrowers have agreed, among other things, not to take some of the following actions without obtaining the relevant lender's prior consent:

- creating encumbrances on any part of their property or assets or dealing with their assets in a way that may adversely affect their ability to repay their loans;
- granting guarantees to any third parties that may adversely affect their ability to repay their loans;
- making any major changes to their corporate structures, such as entering into joint ventures, mergers, acquisitions and reorganizations;
- altering the nature of scope of their business operations in any material respect;
- transferring part or all of their liabilities under the loans to a third party;
- prepaying the loans;
- declaring or paying dividends;
- selling or disposing of assets that may adversely affect their ability to repay their loans; and
- incurring other indebtedness that may adversely affect their ability to repay their loans.

Events of Default

The PRC loan agreements contain certain customary events of default, including failure to pay the amount payable on the due date, unauthorized use of loan proceeds, failure to obtain the lender's approval for an act that requires the latter's approval and material breach of the terms of the loan agreement. The banks are entitled to terminate their respective agreements and/or demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default.

Guarantee and Security

Certain of our PRC subsidiaries have entered into guarantee agreements with PRC banks in connection with some of the PRC loans, pursuant to which these subsidiaries have guaranteed all liabilities of the subsidiary borrowers under these loans. Further, as of December 31, 2017, all of the PRC loans were secured by our assets which includes properties held for sale, properties under development, property, plant and equipment, land use rights, investment properties and equity interests of certain subsidiaries.

OFFSHORE FINANCING AGREEMENTS

January 2021 Bonds

On January 10, 2018, we executed a bonds instrument (the "January 2021 Bonds Instrument") pursuant to which we issued fixed coupon unsecured and unsubordinated bonds in the principal amount of up to HK$300.0 million (US$38.4 million) due on the day immediately preceding the third anniversary of the issue date of the bonds (the “January 2021 Bonds”). As of the date of this information memorandum, the January 2021 Bonds in principal amount of HK172.8 million (US$22.1 million) were issued and outstanding.

Interest

The January 2021 Bonds bear a simple interest rate of 6.0% per annum, payable quarterly in arrears.

Covenants

Subject to conditions and exceptions, the January 2021 Bonds Instrument contains certain covenants, restricting us from, among other things:

- selling or otherwise disposing of assets;
- transferring or leasing properties;
- arranging payment on deferred terms;
- terminating the employment of Mr. Yu;
- creating or establishing subsidiaries, acquiring interest in other entities or entering into any joint venture or partnership;
- executing, amending or terminating agreement involving capital expenditure or commitment; and
- incurring, creating or permitting to subsist any mortgage, charge, pledge, lien or other security interest.

Events of Default

The January 2021 Bonds Instrument contains certain customary events of default, including default in the payment of principal amount of interest when due and continued for seven business days after the receipt of the written notice of breach, breaches of covenant, change of control and other events of default specified in the January 2021 Bonds Instrument. If an event of default occurs and is continuing, a bondholder shall be entitled (but not obliged) to serve a bondholder redemption notice on the Company and demand the January 2021 Bonds then outstanding to become due and payable immediately in whole but not in part.

Apastron MTB Programme

On June 16, 2017, we established a medium term bond programme with an offering size of HK1.5 billion which was amended to HK2.5 billion (US$320.0 million) by our board resolution adopted on January 8, 2018 (the “Apastron MTB Programme”). According to the relevant arranger agreement, we have appointed Apastron Capital Limited in the capacity of placing agent under a placing agreement to place the bonds and the holders of the bonds are entitled to the benefits of a deed poll constituting the bonds.

The issue period under the Apastron MTB Program is from the date of the arranger agreement to the first anniversary of such date or such longer period as agreed by Apastron Capital Limited and us. Any bonds issued under the Apastron MTB Programme (the "Apastron Medium Term Bonds") are denominated in HK$1.25 million and to professional investors only.

As of the date of this information memorandum, the Company has issued, under the Apastron MTB Programme, to some professional investors unsecured bonds respectively with the principal amounts in aggregate of HK$10.0 million (US$1.3 million) due on May 15, 2027 (the "Apastron 2027 Bonds") and HK$1,880.0 million (US$240.6 million) due on June 16, 2034 (the "Apastron 2034 Bonds"). We may no longer take down under the Apastron MTB Programme as the issuance period of the programme expired on June 16, 2018. Interests chargeable on the bonds were payable in advance upon the issue of the bonds. In addition to the coupon interests, the bonds are subject to an annual interest of 0.1% per annum payable annually in arrears first payable on June 16, 2019 and last payable on June 16, 2026 for Apastron 2027 Bonds and June 16, 2033 for Apastron 2034 Bonds. The bonds were amortised at the effective interest method by applying the effective interest rate ranging from 10.92% to 13.14% per annum.

Anglo MTB Programme

On August 25, 2014, we established a medium term bond programme with an offering size of HK$3.3 million (US$0.42 million) (the "Anglo MTB Programme"). According to the relevant arranger agreement, we appointed Anglo Chinese Corporate Finance, Limited in the capacity of arranger to give instruction on behalf of the Company to the bond register to issue Anglo Medium Term Bonds. The arranger agreement has expired on January 18, 2018 when the placing period ended.

As of the date of this information memorandum, the Company issued, under the Anglo MTB Programme, to some professional investors unsecured bonds in total of 10 series with an aggregate principal amount of HK$3.3 billion (US$422.4 million) of which principal amount of HK$290.0 million (US$37.1 million) due on September 12, 2024 (the "Anglo 2024 Bonds"), HK$80.0 million (US$10.2 million) due on September 12, 2025 (the "Anglo 2025 Bonds"), HK$100.0 million (US$12.8 million) due on September 12, 2026 (the "Anglo 2026 Bonds"), HK$570.0 million (US$73.0 million) due on November 14, 2031 (the "Anglo 2031 Bonds"), HK$960.0 million (US$122.9 million) due on November 14, 2032 (the "Anglo 2032 Bonds") and HK$1,300 million (US$166.4 million) due on November 14, 2033 (the "Anglo 2033 Bonds"). The Anglo 2024 Bonds, Anglo 2025 Bonds and 2026 Bonds carry coupon interest at 7.5%, whilst the Anglo 2031 Bonds, Anglo 2032 Bonds and Anglo 2033 Bonds carry coupon interest at 8.0% per annum. Interests chargeable on the bonds were payable in advance upon the issue of the bonds. In addition to the coupon interests, the bonds are subject to an annual interest of 0.1% per annum payable annually until maturity. The bonds were amortised at the effective interest method by applying the effective interest rate ranging from 11.75% to 13.10% per annum.

BEA Facility Loan

On March 8, 2018, the Bank of East Asia, Limited, as the lender, issued a facility letter to our wholly owned subsidiary, Waymax Investments Limited, for a total facility limit of approximately HK$202.1 million (US$25.9 million) (the "BEA Facility Loan"). As of the date of this information memorandum, HK$200.4 million (US$25.7 million) of the loan was withdrawn and outstanding with annual interest rate of 2.5% and 4.1%.

July 2019 Bonds

On July 5, 2016, we executed a bonds instrument (the "July 2019 Bonds Instrument") pursuant to which we issued redeemable fixed coupon unsecured and unsubordinated bonds in the principal amount of HK$100.0 million (US$12.8 million) due on July 4, 2019 (the "July 2019 Bonds"). As of the date of this information memorandum, the entire principal amount of the July 2019 Bonds is outstanding.

Interest

The July 2019 Bonds bear an interest rate of 10.0% per annum. Interest payment is payable quarterly in arrears. If we fail to pay any amount payable under the July 2019 Bonds on its due date, interest shall accrue on the overdue amount from the second day commencing from the due date to the date of actual payment of the overdue amount (both days inclusive) at a simple interest rate of 24% per annum.

Covenants

Subject to conditions and exceptions, the July 2019 Bonds Instrument contains certain covenants, restricting us from, among other things:

- selling or otherwise disposing, or creating encumbrance of assets;
- transferring or leasing properties;
- arranging payment on deferred terms;
- terminating the employment of Mr. Yu;
- creating or establishing subsidiaries, acquiring interest in other entities or entering into any joint venture or partnership;
- executing, amending or terminating agreement involving capital expenditure or commitment;
- incurring, creating or permitting to subsist any mortgage, charge, pledge, lien or other security interest; and
- making borrowings, incurring liabilities, entering into indemnities, financial commitments or guarantees, etc.

Events of Default

The July 2019 Bonds Instrument contains certain customary events of default, including default in the payment of principal amount of interest when due and continued for seven business days after the receipt of the written notice of breach, breaches of covenant, change of control and other events of default specified in the July 2019 Bonds Instrument. If an event of default occurs and is continuing, a bondholder shall be entitled (but not obliged) to serve a bondholder redemption notice on the Company and demand the July 2019 Bonds then outstanding to become due and payable immediately in whole but not in part.

November 2019 Bonds

On November 18, 2016, we executed a bond instrument (the "November 2019 Bonds Instrument"), pursuant to which we issued redeemable fixed coupon unsecured and unsubordinated bonds in the principal amount of HK$200.0 million (US$25.6 million) due November 17, 2019 (the "November 2019 Bonds"). As of the date of this information memorandum, the entire principal amount of the November 2019 Bonds is issued and outstanding.

Interest

The November 2019 Bonds bear an interest rate of 5.0% per annum. Interest payment is payable quarterly in arrears. If we fail to pay any amount payable under the November 2019 Bonds on the due dates, interest shall accrue on the overdue amount from the second day commencing from the due date to the date of actual payment of the overdue amount (both days inclusive) at a simple interest rate of 20% per annum.

Covenants

Subject to conditions and exceptions, the November 2019 Bonds Instrument contains certain covenants restricting us from, among other things:

- selling or otherwise disposing of assets;
- making borrowings, incurring liabilities, entering into indemnities, financial commitments or guarantees, etc.;
- transferring or leasing properties;
- arranging payment on deferred terms;
- terminating the employment of Mr. Yu;
- creating or establishing subsidiaries, acquiring interest in other entities or entering into any joint venture or partnership;
- executing, amending or terminating agreement involving capital expenditure or commitment; and
- incurring, creating or permitting to subsist any mortgage, charge, pledge, lien or other security interest.

Events of Default

The November 2019 Bonds Instrument contains certain customary events of default, including default in the payment of principal amount of interest when due and continued for seven business days after the receipt of the written notice of breach, breaches of covenant, change of control and other events of default specified in the November 2019 Bonds Instrument. If an event of default occurs and is continuing, a bondholder shall be entitled (but not obliged) to serve a bondholder redemption notice on the Company and demand the November 2019 Bonds then outstanding to become due and payable immediately in whole but not in part.

China Huarong Facility Loan

On July 25, 2017, we entered into a facility agreement with China Huarong International for an aggregate principal amount of HK$500.0 million (US$64.0 million). The loan has a term of 24 months from the withdrawal date and can be extended for an additional 12 months pursuant to the terms of the agreement. The loan bears interest at 9.5% per annum for the first 24 months and 11.0% per annum or such other rate as may be agreed for the extended 12 months. Mr. YU Pan and Grand Cosmos Holdings Limited deposited 86,860,000 shares and 235,000,000 shares, respectively into the securities accounts with Huarong International Securities Limited pursuant to separate collateral agreements. As of the date of this information memorandum, HK$500.0 million (US$64.0 million) of the loan was outstanding.

TERMS AND CONDITIONS OF THE BONDS

The following are the terms and conditions of the Bonds substantially in the form in which they (other than the text in italics) will be endorsed on the definitive Certificates and referred to in the global certificate.

The US$30,000,000 10.0 per cent. bonds due 2019 (the "**Bonds**", which expression, unless the context requires otherwise, includes any further bonds issued pursuant to Condition 15 and to be consolidated and forming a single series therewith) of Skyfame Realty (Holdings) Limited (the "**Issuer**") are constituted by a trust deed (as amended and/or supplemented from time to time, the "**Trust Deed**") to be dated 30 August 2018 (the "**Issue Date**") made between the Issuer and Citicorp International Limited (the "**Trustee**", which expression shall include its successor(s)) as trustee for the Holders (as defined below). The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed.

Copies of the Trust Deed and the agency agreement (as amended and/or supplemented from time to time, the "**Agency Agreement**") to be dated 30 August 2018 made between the Issuer, the Trustee, Citibank, N.A., London Branch as principal paying agent (the "**Principal Paying Agent**"), Citibank, N.A., London Branch as registrar (the "**Registrar**") and as transfer agent (the "**Transfer Agent**") and any other agents appointed thereunder are available for inspection upon prior written request and satisfactory proof of holding during normal business hours by the Bondholders (as defined below) at the registered office for the time being of the Trustee, being at the date of issue of the Bonds at 39th Floor, Champion Tower, 3 Garden Road, Central, Hong Kong and at the specified office of the Principal Paying Agent. References herein to "**Paying Agents**" includes the Principal Paying Agent, and "**Agents**" means the Principal Paying Agent, the Registrar, the Transfer Agent and any other agent or agents appointed from time to time under the Agency Agreement with respect to the Bonds. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and those provisions of the Agency Agreement applicable to them.

All capitalised terms that are not defined in these terms and conditions (these "**Conditions**") will have the meanings given to them in the Trust Deed.

1 FORM, SPECIFIED DENOMINATION AND TITLE

The Bonds are issued in the specified denomination of US$200,000 and integral multiples of US$1,000 in excess thereof (each, an "**Authorised Denomination**"). The Bonds are represented by registered certificates ("**Certificates**") and, save as provided in Condition 3(b), each Certificate shall represent the entire holding of Bonds by the same Holder.

Title to the Bonds shall pass by transfer and registration in the Register as described in Condition 3. The Holder of any Bond shall (except as otherwise required by law) be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate (other than the endorsed form of transfer) representing it or the theft or loss of such Certificate and no person shall be liable for so treating the Holder.

In these Conditions, "**Bondholder**" or, in respect of any Bond, "**Holder**" means the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first name thereof).

*Upon issue, the Bonds will be represented by a global certificate (the "**Global Certificate**") registered in the name of a nominee of, and deposited with, a common depository for Euroclear Bank S.A./N.V. and Clearstream Banking S.A. The Conditions are modified by certain provisions contained in the Global Certificate while any of the Bonds are represented by the Global Certificate. See "Summary of Provisions relating to the Bonds in Global Form".*

2 STATUS

The Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

3 TRANSFERS OF BONDS AND ISSUE OF CERTIFICATES

(a) Register

The Issuer will cause the register (the "**Register**") to be kept at the specified office of the Registrar and in accordance with the terms of the Agency Agreement, on which shall be entered the names and addresses of the Holders and the particulars of the Bonds held by them and of all transfers of the Bonds.

(b) Transfer

Subject to the Agency Agreement and Conditions 3(e) and 3(f) herein, a Bond may be transferred by depositing the Certificate issued in respect of that Bond, with the form of transfer on the back of the Certificate duly completed and signed, at the specified office of the Registrar or any Transfer Agent.

In the case of a transfer of part only of a holding of Bonds represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Bonds to a person who is already a Holder, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. No transfer of title to a Bond will be valid unless and until entered on the Register.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

(c) Delivery of New Certificates

Each new Certificate to be issued upon transfer of Bonds pursuant to Condition 3(b) shall be made available for delivery within five business days of receipt of a duly completed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of any Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer and Certificate shall have been made or, at the option of the Holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the Holder entitled to the new Certificate to such address as may be so specified, unless such Holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 3(c) and in Condition 3(e), "**business day**" means a day, other than a Saturday, Sunday or public holiday, on which banks are generally open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

Except in the limited circumstances described herein (see "Summary of Provisions relating to the Bonds in Global Form"), owners of interests in the Bonds will not be entitled to receive physical delivery of Certificates.

(d) Formalities Free of Charge

Registration of transfer of Bonds and issuance of new Certificates will be effected without charge by or on behalf of the Issuer or any Agent but upon (i) payment (or the giving of such indemnity and/or security and/or pre-funding as the Issuer or any Agent may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer; (ii) the Registrar being satisfied in its absolute discretion with the documents of title or identity of the person making the application and (iii) the relevant Agent being satisfied that the regulations concerning transfer of Bonds have been complied with.

(e) Closed Periods

No Bondholder may require the transfer of a Bond to be registered (i) during the period of seven days ending on (but excluding) the due date for any payment of principal (or premium) in respect of that Bond; or (ii) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(a)); or (iii) during the period of seven days prior to (and including) any date of redemption pursuant to Condition 6(b); or (iv) after a Put Exercise Notice has been deposited in respect of such Bond pursuant to Condition 6(c).

(f) Regulations

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer and registration of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee or by the Registrar, with the prior written approval of the Trustee. A copy of the current regulations will be made available (free of charge to the Holders and at the Issuer's expense) by the Registrar to any Holder upon prior written request and satisfactory proof of holding.

4 COVENANTS

(a) Limitation on Indebtedness and Preferred Stock

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), and the Issuer will not permit any Restricted Subsidiary to issue Preferred Stock, *provided* that the Issuer may Incur Indebtedness (including Acquired Indebtedness), and any Restricted Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 2.25 to 1.0.

Notwithstanding the foregoing, the Issuer will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock of Restricted Subsidiaries held by the Issuer so long as it is so held).

(2) Notwithstanding the foregoing, the Issuer and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following ("**Permitted Indebtedness**"):

(a) Indebtedness under the Bonds (excluding any further bonds issued pursuant to Condition 15);

(b) Indebtedness of the Issuer or any Restricted Subsidiary outstanding on the Issue Date, excluding Indebtedness permitted under clause (2)(c) of this Condition 4(a); *provided* that such Indebtedness of Restricted Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness (other than such Indebtedness excluded from the definition of Permitted Subsidiary Indebtedness by the terms thereof);

(c) Indebtedness of the Issuer or any Restricted Subsidiary owed to the Issuer or any Restricted Subsidiary; *provided* that (i) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Issuer or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (2)(c) of this Condition 4(a), and (ii) if the Issuer is the obligor on such Indebtedness, such Indebtedness must expressly be subordinated in right of payment to the Bonds;

(d) Indebtedness ("**Permitted Refinancing Indebtedness**") issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, redeem, defease, discharge or extend (collectively, "refinance" and "refinances" and "refinanced" shall have a correlative meaning), then outstanding Indebtedness (or Indebtedness that is no longer outstanding but that is refinanced substantially concurrently with the Incurrence of such Permitted Refinancing Indebtedness) Incurred under clause (1) of Condition 4(a) or clauses (2)(a), (2)(b), (2)(c), (2)(f), (2)(g), (2)(o), (2)(r), (2)(s), (2)(t), (2)(u) and (2)(v) of Condition 4(a) and any refinancings thereof in an amount not to exceed the amount so refinanced (plus premiums, accrued interest, fees and expenses); provided that (i) Indebtedness the proceeds of which are used to refinance the Bonds or Indebtedness that is pari passu with, or subordinated in right of payment to, the Bonds shall only be permitted under this clause (2)(d) of this Condition 4(a) if (A) in case the Bonds are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Bonds, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Bonds, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Bonds, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Bonds, at least to the extent that the Indebtedness to be refinanced is subordinated to the Bonds, and (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced;

(e) Indebtedness Incurred by the Issuer or any Restricted Subsidiary pursuant to Hedging Obligations designed to reduce or manage the exposure of the Issuer or any Restricted Subsidiary to fluctuations in interest rates, currencies or the price of commodities;

(f) Indebtedness Incurred by the Issuer or any Restricted Subsidiary

(i) representing Capitalized Lease Obligations; or

(ii) for the purpose of financing (x) all or any part of the purchase price of assets, real or personal property or equipment (including the lease purchase price of land use rights) to be used in the ordinary course of business by the Issuer or a Restricted Subsidiary in a Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such assets, real or personal property (including the lease purchase price of land use rights) or equipment which will, upon acquisition, become a Restricted Subsidiary, or (y) all or any part of the purchase price or the cost of development, construction or improvement of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Issuer or a Restricted Subsidiary in a Permitted Business; provided that in the case of this (ii), (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, and (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such assets, property or equipment or completion of such development, construction or improvement;

provided further that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (2)(f) of Condition 4(a) (including all Permitted Refinancing Indebtedness Incurred to refinance such Indebtedness), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (2)(n)(y), (2)(r), (2)(s), (2)(t), (2)(u) and (2)(v) of Condition 4(a) below (including, in each case, all Permitted Refinancing Indebtedness Incurred to refinance such Indebtedness, but excluding any Contractor Guarantee or Guarantee Incurred thereunder and under this clause (2)(f) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 35% of Total Assets;

(g) Indebtedness Incurred by the Issuer or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);

(h) Indebtedness Incurred by the Issuer or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit, trade guarantees or similar instruments issued in the ordinary course of business to the extent that such letters of credit, trade guarantees or similar instruments are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 30 days following receipt by the Issuer or such Restricted Subsidiary of a demand for reimbursement;

(i) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Issuer or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary, other than guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition; *provided* that the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds actually received from the disposition of such business, assets or Restricted Subsidiary;

(j) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business *provided*, however, that such Indebtedness is extinguished within five Business Days of Incurrence;

(k) guarantees by the Issuer or any Restricted Subsidiary of Indebtedness of any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant;

(l) Indebtedness of the Issuer or any Restricted Subsidiary maturing within one year used by the Issuer or any Restricted Subsidiary for working capital; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (2)(l) of this Condition 4(a) at any time outstanding does not exceed US$35.0 million (or the Dollar Equivalent thereof);

(m) Indebtedness of the Issuer or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (including all Permitted Refinancing Indebtedness Incurred to refinance such Indebtedness) not to exceed US$30.0 million (or the Dollar Equivalent thereof);

(n) (x) Bank Deposit Secured Indebtedness Incurred by the Issuer or any Restricted Subsidiary, *provided* that on the date of Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (2)(n)(x) of Condition 4(a) (including all Permitted Refinancing Indebtedness Incurred to refinance such Indebtedness) but excluding any Contractor Guarantee or Guarantee Incurred under this clause (n)(x) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 12.5% of Total Assets; or (y) Bank Deposit Secured Indebtedness Incurred by the Issuer or any Restricted Subsidiary, *provided* that (i) such Bank Deposit Secured Indebtedness is not permitted under clause (n)(x) above, and (ii) on the date of Incurrence of such Indebtedness and after giving effect thereto, the sum of, (1) the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (2)(n)(y) of Condition 4(a) (including all Permitted Refinancing Indebtedness Incurred to refinance such Indebtedness), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clause (2)(f) of Condition 4(a) above and clauses (2)(r), (2)(s), (2)(t), (2)(u) and (2)(v) of Condition 4(a) below (including, in each case, all Permitted Refinancing Indebtedness Incurred to refinance such Indebtedness, but excluding any Contractor Guarantee or Guarantee Incurred thereunder and under this clause (2)(n)(y) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35% of Total Assets;

(o) Indebtedness of the Issuer or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Issuer or such Restricted Subsidiary becomes obligated to pay the purchase price pursuant to such Staged Acquisition Agreement; *provided* that such Person is either a Restricted Subsidiary or would become a Restricted Subsidiary upon completion of the transactions under such Staged Acquisition Agreement;

(p) Pre-Registration Mortgage Guarantees by the Issuer or any Restricted Subsidiary;

(q) Indebtedness constituting a Subordinated Shareholder Loan;

(r) Indebtedness secured by Investment Properties or long term assets and Guarantees thereof by the Issuer or any Restricted Subsidiary, *provided* that on the date of Incurrence of such Indebtedness and after giving effect thereto, the sum of, (1) the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (2)(r) of Condition 4(a) (including all Permitted Refinancing Indebtedness Incurred to refinance such Indebtedness), plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (2)(f) and (2)(n)(y) of Condition 4(a) above and clauses (2)(s), (2)(t), (2)(u) and (2)(v) of Condition 4(a) below (including, in each case, all Permitted Refinancing Indebtedness Incurred to refinance such Indebtedness, but excluding any Contractor Guarantee or Guarantee Incurred thereunder and under this clause (2)(r) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35% of Total Assets;

(s) Indebtedness Incurred or Preferred Stock issued by the Issuer or any Restricted Subsidiary arising from any Investment made by a Trust Company Investor in a Restricted Subsidiary and the Indebtedness of the Issuer or a Restricted Subsidiary constituting a Guarantee by, or grant of a Lien on the assets of, the Issuer or a Restricted Subsidiary in favor of a Trust Company Investor with respect to the obligation to pay a guaranteed or preferred return to such Trust Company Investor on Capital Stock of a Restricted Subsidiary held by such Trust Company Investor; *provided* that on the date of Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (s) (including all Permitted Refinancing Indebtedness Incurred to refinance such Indebtedness) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (2)(f), (2)(n)(y) and (2)(r) of Condition 4(a) above and clauses (2)(t), (2)(u) and (2)(v) of Condition 4(a) below (including, in each case, all Permitted Refinancing Indebtedness Incurred to refinance such Indebtedness, but excluding any Contractor Guarantee or Guarantee Incurred thereunder and under this clause (2)(s) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35% of Total Assets;

(t) Acquired Indebtedness of any Restricted Subsidiary Incurred and outstanding on the date on which such Restricted Subsidiary became a Restricted Subsidiary (other than Indebtedness Incurred (i) to provide all or any portion of the funds utilized to consummate the transaction or series of transactions pursuant to which a Person becomes a Restricted Subsidiary or (ii) otherwise in contemplation of a Person becoming a Restricted Subsidiary or any such acquisition); provided that on the date of the Incurrence of all such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (t) (including all Permitted Refinancing Indebtedness Incurred to refinance such Indebtedness) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (2)(f), (2)(n)(y), (2)(r) and (2)(s) of Condition 4(a) above and clauses (2)(u) and (2)(v) of Condition 4(a) below (including, in each case, all Permitted Refinancing Indebtedness Incurred to refinance such Indebtedness, but excluding any Contractor Guarantee or Guarantee Incurred thereunder and under this clause (2)(t) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35% of Total Assets;

(u) Indebtedness of the Issuer or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Minority Interest Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Issuer or such Restricted Subsidiary becomes obligated to pay the purchase price pursuant to such Minority Interest Staged Acquisition Agreement; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (u) (including all Permitted Refinancing Indebtedness Incurred to refinance such Indebtedness) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (2)(f), (2)(n)(y), (2)(r), (2)(s) and (2)(t) of Condition 4(a) above and clause (v) of Condition 4(a) below (including, in each case, all Permitted Refinancing Indebtedness Incurred to refinance such Indebtedness, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (2)(u) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35% of Total Assets; and

(v) Indebtedness Incurred by the Issuer or any Restricted Subsidiary constituting a Guarantee of Indebtedness of any Person (other than a Restricted Subsidiary) by the Issuer or such Restricted Subsidiary, provided that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the sum of (1) the aggregate of all such Indebtedness Incurred under this clause (v) (including all Permitted Refinancing Indebtedness Incurred to refinance such Indebtedness) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (2)(f), (2)(n)(y), (2)(r), (2)(s), (2)(t) and (2)(u) above (including, in each case, all Permitted Refinancing Indebtedness Incurred to refinance such Indebtedness, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (2)(v) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35% of Total Assets;

(3) For purposes of determining compliance with this covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in clause (1) of Condition 4(a) above, the Issuer, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness in one or more types of Indebtedness described above.

(4) Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred or Preferred Stock that may be issued pursuant to this covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness or Preferred Stock due solely to the result of fluctuations in the exchange rates of currencies, provided that such Indebtedness was permitted to be Incurred or Preferred Stock that may be issued at the time of such Incurrence.

(b) Limitation on Restricted Payments

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below of this Condition 4(b) being collectively referred to as "**Restricted Payments**"):

(1) declare or pay any dividend or make any distribution on or with respect to the Issuer's or any Restricted Subsidiary's Capital Stock (other than dividends or distributions payable or paid in shares of the Issuer's or any Restricted Subsidiary's Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Issuer or any Restricted Subsidiary;

(2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Issuer or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) or any direct or indirect parent of the Issuer held by any Persons other than the Issuer or any Restricted Subsidiary;

(3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Bonds (excluding any intercompany Indebtedness between or among the Issuer and any Restricted Subsidiary); or

(4) make any Investment, other than a Permitted Investment;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

(a) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;

(b) the Issuer could not Incur at least US$1.00 of Indebtedness under the proviso in clause (1) of Condition 4(a) (Limitation on Indebtedness and Preferred Stock); or

(c) such Restricted Payment, together with the aggregate amount of all Restricted Payments (excluding Restricted Payments permitted by the immediately following paragraph other than clause (1) of the immediately following paragraph) made by the Issuer and its Restricted Subsidiaries after the Issue Date, shall exceed the sum of (without duplication):

(i) 50% of the aggregate amount of the Consolidated Net Income of the Issuer (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on July 1, 2017 and ending on the last day of the Issuer's most recently ended fiscal quarter for which consolidated financial statements of the Issuer (which the Issuer shall use its reasonable best efforts to compile in a timely manner) are available (which may include internal consolidated financial statements); plus

(ii) 100% of the aggregate Net Cash Proceeds received by the Issuer after the Issue Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Restricted Subsidiary of the Issuer, including any such Net Cash Proceeds received upon (A) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Issuer into Capital Stock (other than Disqualified Stock) of the Issuer, or (B) the exercise by a Person who is not a Restricted Subsidiary of the Issuer of any options, warrants or other rights to acquire Capital Stock of the Issuer (other than Disqualified Stock) in each case excluding the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Issuer; plus

(iii) the amount by which Indebtedness of the Issuer or any Restricted Subsidiary is reduced on the Issuer's consolidated balance sheet upon the conversion or exchange (other than by a Restricted Subsidiary of the Issuer) subsequent to the Issue Date of any Indebtedness of the Issuer or any Restricted Subsidiary convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Issuer (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Issuer upon such conversion or exchange); plus

(iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Issue Date in any Person resulting from (A) repayments of loans or advances by such Person or other transfers of property, in each case to the Issuer or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income) after the Issue Date, (B) the unconditional release of a guarantee provided by the Issuer or a Restricted Subsidiary after the Issue Date of an obligation of another Person, (C) to the extent that an Investment made after the Issue Date was, after such date, or is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, or (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Issuer or a Restricted Subsidiary after the Issue Date in any such Person; plus

(v) US$20.0 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

(1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;

(2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Issuer with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;

(3) the redemption, repurchase or other acquisition of Capital Stock of the Issuer (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or a sale (other than to a Restricted Subsidiary of the Issuer) of, shares of the Capital Stock (other than Disqualified Stock) of the Issuer (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;

(4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Issuer in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Restricted Subsidiary of the Issuer) of, shares of the Capital Stock (other than Disqualified Stock) of the Issuer (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;

(5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a pro rata basis or on a basis more favorable to the Issuer, to all holders of any class of Capital Stock of such Restricted Subsidiary;

(6) cash payments in lieu of the issuance of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Issuer; *provided* that, any such cash payment shall not be for the purpose of evading the limitation of this Condition 4(b) (as determined in good faith by the Board of Directors of the Issuer);

(7) the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Issuer or any Restricted Subsidiary held by an employee benefit plan of the Issuer or any Restricted Subsidiary, any current or former officer, director, consultant, or employee of the Issuer or any Restricted Subsidiary (or permitted transferees, estates or heirs of any of the foregoing) or the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Issuer or any Restricted Subsidiary for the purposes of any share award scheme set up for senior management or employees of the Issuer or any Restricted Subsidiary, provided that the aggregate price paid for all such repurchased, redeemed, acquired or retired Capital Stock may not exceed US$3.0 million (or the Dollar Equivalent thereof) in any calendar year;

(8) the purchase by the Issuer or a Restricted Subsidiary of Capital Stock of any Restricted Subsidiary that is not Wholly Owned, directly or indirectly, by the Issuer from an Independent Third Party pursuant to an agreement entered into between/among the Issuer or any Restricted Subsidiary and such Independent Third Party solely for the purpose of acquiring real property or land use rights, provided that (x) such purchase occurs within 12 months after such Restricted Subsidiary acquires the real property or land use rights it was formed to acquire and (y) the Issuer delivers to the Trustee a Board Resolution set forth in an Officers' Certificate confirming that, in the opinion of the Board of Directors, the purchase price of such Capital Stock is less than or equal to the Fair Market Value of such Capital Stock;

(9) the purchase and payments made under a Staged Acquisition Agreement to acquire the Capital Stock of a Person *provided* that such Person becomes a Restricted Subsidiary on or before the last date in the period stipulated in such Staged Acquisition Agreement for which the purchase price can be made (such date not to exceed 12 months from the date the Issuer or any Restricted Subsidiary becomes obligated to pay the purchase price pursuant to the Staged Acquisition Agreement);

(10) the payment of any dividend or distribution payable or paid solely in Capital Stock (other than Disqualified Stock or Preferred Stock) of any Unrestricted Subsidiary or in options, warrants or other rights to acquire shares of such Capital Stock;

(11) dividends paid to, or the purchase of Capital Stock of the Issuer or any Restricted Subsidiary held by, any Trust Company Investor in respect of any Indebtedness or Preferred Stock outstanding on the Issue Date or permitted to be Incurred under paragraph (2)(s) of Condition 4(a);

(12) the declaration and payment of dividends on the Common Stock of the Issuer by the Issuer with respect to any financial year, to the extent that such declaration and payment of dividends by the Issuer pursuant to this clause (12) does not exceed 20% of the consolidated profit for the year of the Issuer calculated in accordance with GAAP; or

(1) purchase of the Capital Stock of Chongqing Hesheng Real Estate Development Company Limited in accordance with the relevant equity transfer agreements as disclosed in the announcements of the Issuer dated March 13, 2018 and March 15, 2018, with respect to the acquisition of certain land use rights in Chongqing;

provided that, in the case of clause (2), (3), (4), (10) or (13) of the preceding paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Issuer or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this Condition 4(b) will be their Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US$10.0 million (or the Dollar Equivalent thereof) (other than any Restricted Payments set forth in clauses (5) to (12) above, the Issuer will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this Condition 4(b) were computed, together with a copy of any fairness opinion or appraisal required by the Trust Deed or these Conditions.

For purpose of determining compliance with this Condition 4(b), in the event that an item of Investment meets the criteria of both the first paragraph of this Condition 4(b) and paragraph (20) of the definition of "Permitted Investment" at any time, the Issuer, at its sole discretion, may classify and from time to time may reclassify such item of Investment in either or both of them.

(c) Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

(1) Except as provided below, the Issuer will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:

(a) pay dividends or make any other distributions on any Capital Stock of such Restricted Subsidiary owned by the Issuer or any other Restricted Subsidiary;

(b) pay any Indebtedness or other obligation owed to the Issuer or any other Restricted Subsidiary;

(c) make loans or advances to the Issuer or any other Restricted Subsidiary; or

(d) sell, lease or transfer any of its property or assets to the Issuer or any other Restricted Subsidiary, *provided* that for the avoidance of doubt the following shall not be deemed to constitute such an encumbrance or restriction: (i) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on Common Stock; (ii) the subordination of loans or advances made to the Issuer or any Restricted Subsidiary to other Indebtedness Incurred by the Issuer or any Restricted Subsidiary; and (iii) the provisions contained in documentation governing Indebtedness requiring transactions between or among the Issuer and any Restricted Subsidiary or between or among any Restricted Subsidiary to be on fair and reasonable terms or on an arm's length basis.

(2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:

(a) existing in agreements as in effect on the Issue Date, or in the Bonds, the Trust Deed and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(b) existing under or by reason of applicable law, rule, regulation or order;

(c) existing with respect to any Person or the property or assets of such Person acquired by the Issuer or any Restricted Subsidiary, at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(d) that otherwise would be prohibited by the provision described in clause (1)(d) of this Condition 4(c) if they arise, or are agreed to, in the ordinary course of business and, that (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Issuer or any Restricted Subsidiary not otherwise prohibited by the Trust Deed or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Issuer or any Restricted Subsidiary in any manner material to the Issuer or any Restricted Subsidiary;

(e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale, transfer or other disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by Condition 4(d) (Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries), Condition 4(a) (Limitation on Indebtedness and Preferred Stock), Condition 4(i) (Limitation on Asset Sales) and Condition 4(j) (Consolidation, Merger and Sale of Assets);

(f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness or Preferred Stock permitted under Condition 4(a) (Limitation on Indebtedness and Preferred Stock) if, as determined by the Board of Directors, the encumbrances or restrictions are (i) customary for such types of agreements and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Issuer to make required payment on the Bonds and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(g) existing in customary provisions in joint venture agreements and other similar agreements permitted under the Trust Deed, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to such joint venture and if (as determined in good faith by the Board of Directors) (i) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to materially and adversely affect (x) the ability of the Issuer to make the required payments on the Bonds; or

(h) existing with respect to any Unrestricted Subsidiary or the property or assets of such Unrestricted Subsidiary that is designated as a Restricted Subsidiary in accordance with the terms of the Trust Deed at the time of such designation and not incurred in contemplation of such designation, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Subsidiary or its subsidiaries or the property or assets of such Subsidiary or its subsidiaries, and any extensions, refinancing, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced.

(d) Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Issuer will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

(1) to the Issuer or a Wholly Owned Restricted Subsidiary, or in the case of a Restricted Subsidiary that is not Wholly Owned, pro rata to its shareholders or incorporators or on a basis more favorable to the Issuer and its Restricted Subsidiaries;

(2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Issuer or a Wholly Owned Restricted Subsidiary;

(3) the issuance or sale of Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made under Condition 4(b) (Limitation on Restricted Payments) if made on the date of such issuance or sale and *provided* that the Issuer complies with Condition 4(i) (Limitation on Asset Sales); or

(4) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided* that the Issuer or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with Condition 4(i) (Limitation on Asset Sales).

(e) Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Issuer will not permit any Restricted Subsidiary, directly or indirectly, to guarantee any Indebtedness ("**Guaranteed Indebtedness**") of the Issuer, unless (1)(a) such Restricted Subsidiary simultaneously executes and delivers a supplemental trust deed to the Trust Deed providing for an unsubordinated guarantee of payment of the Bonds by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Issuer or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its guarantee for the Bonds until the Bonds have been paid in full or (2) such Indebtedness is permitted by clauses 2(b), (2)(c), 2(k) or (2)(n) (in the case of clause (2)(n), with respect to the guarantee provided by any Restricted Subsidiary through the pledge of cash deposits, bank accounts or other assets to secure (or the use of any Guarantee, letter of credit or similar instrument to Guarantee), directly, or indirectly, any Bank Deposit Secured Indebtedness) of Condition 4(a) (Limitation on Indebtedness and Preferred Stock).

(f) Limitation on Transactions with Shareholders and Affiliates

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10% or more of any class of Capital Stock of the Issuer or (y) any Affiliate of the Issuer (each an "**Affiliate Transaction**"), unless:

(1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Issuer or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Issuer or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Issuer; and

(2) the Issuer delivers to the Trustee:

(a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and

(b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$10.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause (2)(a) above, an opinion addressed to the Trustee as to the fairness to the Issuer or the relevant Restricted Subsidiary of such Affiliate Transaction from a financial point of view or confirming that the terms of such Affiliate Transaction are no less favorable to the Issuer than terms available to (or from, as applicable) a person that is not an Affiliate of the Issuer issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

(1) the payment of reasonable and customary regular fees and other compensation to directors of the Issuer or any Restricted Subsidiary who are not employees of the Issuer or such Restricted Subsidiary;

(2) transactions between or among the Issuer and any of its Wholly Owned Restricted Subsidiaries or between or among Wholly Owned Restricted Subsidiaries;

(3) any Restricted Payment of the type described in clauses (1), (2) or (3) of the first paragraph of Condition 4(b) (Limitation on Restricted Payments) if permitted by that covenant;

(4) any sale of Capital Stock (other than Disqualified Stock) of the Issuer;

(5) any purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement or Minority Interest Staged Acquisition Agreement, so long as each such purchase is in compliance with the listing rules of the SEHK;

(6) the payment of compensation to employees, officers and directors of the Issuer or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is approved by the Board of Directors in good faith or, if such Restricted Subsidiary is listed on a recognized stock exchange, in compliance with the listing rules of such stock exchange; or

(7) any employment, consulting, service or termination agreement, or reasonable and customary indemnification arrangements, entered into by the Issuer or any of its Restricted Subsidiaries with directors, officers, employees and consultants in the ordinary course of business and the payment of compensation pursuant thereto;

In addition, the requirements of clause (2) of the first paragraph of this Condition 4(f) shall not apply to (i) Investments (other than Permitted Investments) not prohibited by Condition 4(b) (Limitation on Restricted Payments), (ii) transactions pursuant to agreements in effect on the Issue Date and described in this information memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Issuer and its Restricted Subsidiaries than the original agreement in effect on the Issue Date and (iii) any transaction between or among the Issuer, any Wholly Owned Restricted Subsidiary, any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary, Minority Joint Venture or Unrestricted Subsidiary or between or among Restricted Subsidiaries that are not Wholly Owned Restricted Subsidiaries, Minority Joint Venture or Unrestricted Subsidiary; *provided* that in the case of clause (iii), (a) such transaction is entered into in the ordinary course of business and (b) none of the shareholders or partners (other than the Issuer or any Restricted Subsidiary) of or in such Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary, Minority Joint Venture or Unrestricted Subsidiary, is a Person described in clauses (x) or (y) of the first paragraph of this Condition 4(f) (other than by reason of such shareholder or partner being an officer or director of such Restricted Subsidiary, Minority Joint Venture or Unrestricted Subsidiary).

(g) Limitation on Liens

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Issue Date or thereafter acquired, except Permitted Liens, unless the Bonds are secured equally and ratably with (or, if the obligation or liability to be secured by such Lien is subordinated in right of payment to the Bonds, prior to) the obligation or liability secured by such Lien, for so long as such obligation or liability is secured by such Lien.

(h) Limitation on Sale and Leaseback Transactions

The Issuer will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; *provided* that the Issuer or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

(1) the Issuer or such Restricted Subsidiary, as the case may be, could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under Condition 4(a) (Limitation on Indebtedness and Preferred Stock) and (b) incurred a Lien to secure such Indebtedness pursuant to Condition 4(g) (Limitation on Liens), in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;

(2) the gross cash proceeds of such Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and

(3) the transfer of assets in such Sale and Leaseback Transaction is permitted by, and the Issuer or such Restricted Subsidiary, as applicable, applies the proceeds of such transaction in compliance with, Condition 4(i) (Limitation on Asset Sales).

(i) Limitation on Asset Sales

The Issuer will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

(1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;

(2) the consideration received by the Issuer or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of; and

(3) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which the Issuer or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US$10.0 million (or the Dollar Equivalent thereof), the Issuer shall deliver to the Trustee an opinion as to the fairness to the Issuer or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing. For purposes of this provision, each of the following will be deemed to be cash:

(a) any liabilities, as shown on the Issuer's most recent consolidated balance sheet, of the Issuer or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Bonds) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, set-off, novation or similar agreement that releases the Issuer or such Restricted Subsidiary from further liability; and

(b) any securities, notes or other obligations received by the Issuer or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Issuer or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion.

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Issuer (or any Restricted Subsidiary) may apply such Net Cash Proceeds to:

(1) permanently repay Senior Indebtedness of the Issuer or any Indebtedness of a Restricted Subsidiary (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly permanently reduce commitments with respect thereto) in each case owing to a Person other than the Issuer or a Restricted Subsidiary; or

(2) acquire Replacement Assets;

provided that, pending the application of Net Cash Proceeds as set forth in clause (1) or (2) of this paragraph, such Net Cash Proceeds may be temporarily invested only in cash or Temporary Cash Investments.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1) and (2) in the immediately preceding paragraph will constitute "**Excess Proceeds.**" Excess Proceeds of less than US$10.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US$10.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Issuer must make an Offer to Purchase Bonds having a principal amount equal to:

(1) accumulated Excess Proceeds, multiplied by

(2) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Bonds and (y) the denominator of which is equal to the outstanding principal amount of the Bonds and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale, rounded down to the nearest US$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to (but not including) the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Issuer may use those Excess Proceeds for any purpose not otherwise prohibited by the Trust Deed or the Bonds. If the aggregate principal amount of Bonds (and any other *pari passu* Indebtedness) tendered in (or required to be prepaid or redeemed in connection with) such Offer to Purchase exceeds the amount of Excess Proceeds, the Bonds will be selected (and such other *pari passu* Indebtedness) to be purchased on a pro rata basis based on the principal amount of Bonds and such other *pari passu* Indebtedness tendered (or required to be prepaid or redeemed). Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

(j) Consolidation, Merger and Sale of Assets

The Issuer will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

(1) the Issuer shall be the continuing Person, or the Person (if other than it) formed by or surviving such consolidation or merger or that acquired or leased such property and assets (the "**Surviving Person**") shall be a corporation organized and validly existing under the laws of the PRC and shall expressly assume, by a supplemental trust deed to the Trust Deed, executed and delivered to the Trustee, all the obligations of the Issuer under the Trust Deed and the Bonds, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which payment is made, and the Trust Deed and the Bonds, as the case may be, shall remain in full force and effect;

(2) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction on a pro forma basis, the Issuer or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Issuer immediately prior to such transaction;

(4) immediately after giving effect to such transaction on a pro forma basis, the Issuer or the Surviving Person, as the case may be, could Incur at least US$1.00 of Indebtedness under the proviso in clause (1) of Condition 4(a) (Limitation on Indebtedness and Preferred Stock);

(5) the Issuer delivers to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4) of this paragraph) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental Trust Deed complies with this provision and that all conditions precedent provided for in the Trust Deed relating to such transaction have been complied with.

(k) Limitation on the Issuer's Business Activities

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; *provided*, however, that the Issuer or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than Permitted Businesses as long as any Investment therein was not prohibited when made under Condition 4(b) (Limitation on Restricted Payments).

(l) Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) neither the Issuer nor any Restricted Subsidiary provides credit support for the Indebtedness of such Restricted Subsidiary; (3) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Issuer as a result of the designation; (4) such Restricted Subsidiary does not own any Disqualified Stock of the Issuer or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness of, or any Lien on any property of, the Issuer or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under Condition 4(a) (Limitation on Indebtedness and Preferred Stock) or such Lien would violate Condition 4(g) (Limitation on Liens); (5) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; and (6) the Investment deemed to have been made thereby in such newly-designated Unrestricted Subsidiary and each other newly-designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made under Condition 4(b) (Limitation on Restricted Payments).

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred under Condition 4(a) (Limitation on Indebtedness and Preferred Stock); (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred under Condition 4(g) (Limitation on Liens); and (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary).

(m) Government Approvals and Licenses; Compliance with Law

The Issuer will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (a) the business, results of operations or prospects of the Issuer and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Issuer to perform its obligations under the Bonds or the Trust Deed.

(n) Anti-Layering

The Issuer will not Incur any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Issuer, unless such Indebtedness is also contractually subordinated in right of payment to the Bonds on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or guarantees securing or in favor of some but not all of such Indebtedness.

(o) Financial Information

(1) So long as any of the Bonds remain outstanding, the Issuer will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with the SEHK or any other recognized exchange on which the Issuer's Common Stock is at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the Common Stock of the Issuer ceases to be listed for trading on a recognized stock exchange, the Issuer will file with the Trustee and furnish to the Holders:

(a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Issuer, copies of the financial statements (on a consolidated basis and in the English language) of the Issuer in respect of such financial year (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and audited by a member firm of an internationally recognized firm of independent accountants;

(b) as soon as they are available, but in any event within 45 calendar days after the end of the second financial quarter of the Issuer, copies of the financial statements (on a consolidated basis and in the English language) of the Issuer in respect of such half year period (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and reviewed by a member firm of an internationally recognized firm of independent accountants; and

(c) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarters of the Issuer, copies of the unaudited financial statements (on a consolidated basis and in the English language) of the Issuer, including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Issuer, together with a certificate signed by the person then authorized to sign financial statements on behalf of the Issuer to the effect that such financial statements are true in all material respects and present fairly the financial position of the Issuer as at the end of, and the results of its operations for, the relevant quarterly period.

(2) In addition, so long as any of the Bonds remain outstanding, the Issuer will provide to the Trustee (a) within 120 days after the close of each fiscal year ending after the Issue Date, an Officers' Certificate stating the Fixed Charge Coverage Ratio with respect to the four most recent quarterly periods and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Issuer's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation, *provided* that the Issuer shall not be required to provide such auditor certification if its external auditors refuse to provide such certification as a result of a policy of such external auditors not to provide such certification, and the Trustee shall be entitled to accept such certificate as sufficient evidence thereof, in which event it shall be conclusive and binding on the Bondholders; and (b) as soon as possible and in any event within 30 days after the Issuer becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate setting forth the details of the Default and the action which the Issuer proposes to take with respect thereto, and the Trustee shall be entitled to accept such certificate as sufficient evidence thereof, in which event it shall be conclusive and binding on the Bondholders.

5 INTEREST

(a) Interest Rate and Interest Payment Dates

The Bonds bear interest on their outstanding principal amount from and including the Issue Date at the rate of 10.0 per cent. per annum, payable in arrears on 28 February 2019 and 28 August 2019 (each an "**Interest Payment Date**"). Interest in respect of any Bond shall be calculated per US$1,000 in principal amount of the Bonds (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall, save as provided above in relation to equal instalments, be equal to the product of the rate of interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

Each Bond will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Bond, payment of principal or premium (if any) is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholders, and (b) the day falling seven days after the Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant Holders under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed, rounding the resulting figure to the nearest cent (half a cent being rounded upwards). In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

6 REDEMPTION AND PURCHASE

(a) Final Redemption

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 28 August 2019 (the "**Maturity Date**"). The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

(b) Redemption for Taxation Reasons

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice (a "**Tax Redemption Notice**") to the Bondholders in accordance with Condition 16 (which shall be irrevocable) and in writing to the Trustee and the Principal Paying Agent, at their principal amount (together with any interest accrued to the date fixed for redemption) if (i) the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of Bermuda, the PRC or any political subdivision or any authority thereof or therein having power to tax or any jurisdiction through which payments are made, or any change in the application or official interpretation of, or the stating of an official position with respect to, such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), which change or amendment becomes effective on or after the Issue Date, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, *provided* that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Bonds then due.

Prior to the giving of any Tax Redemption Notice pursuant to this Condition 6(b), the Issuer shall deliver to the Trustee (A) a certificate signed by any Authorised Signatory of the Issuer stating that the obligation referred to in (i) above of this Condition 6(b) cannot be avoided by the Issuer taking reasonable measures available to it, and (B) an opinion, in form and substance satisfactory to the Trustee, of independent tax or legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Amounts as a result of such change or amendment or any such change in the application or official interpretation or stating of official position (as the case may be). The Trustee shall and shall be entitled to accept and rely upon such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above of this Condition 6(b), in which event they shall be conclusive and binding on the Bondholders.

(c) Redemption for Change of Control

Following the occurrence of a Change of Control, a Holder will have the right (the "**Change of Control Put Right**"), at such Holder's option, to require the Issuer to redeem all, but not some only, of such Holder's Bonds on the Put Settlement Date (as defined below in this Condition 6(c)) at 101 per cent. of their principal amount, together with accrued but unpaid interest up to (but excluding) the Put Settlement Date. To exercise such right, the Holder of the relevant Bond must deposit at the specified office of the Principal Paying Agent or any other Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent (a "**Put Exercise Notice**"), together with the Certificate evidencing the Bonds to be redeemed, by not later than 30 days following a Change of Control, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 16.

The "**Put Settlement Date**" shall be the fourteenth day after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds the subject of the Put Exercise Notices delivered as aforesaid on the Put Settlement Date.

Not later than 30 days following the day on which the Issuer becomes aware of a Change of Control, the Issuer shall procure that notice regarding such Change of Control shall be delivered to the Trustee and the Principal Paying Agent in writing and to the Holders (in accordance with Condition 16) stating:

(i) the Put Settlement Date;

(ii) the date of the Change of Control and, briefly, the events causing the Change of Control;

(iii) the date by which the Put Exercise Notice must be given;

(iv) the redemption amount and the method by which such amount will be paid;

(v) the names and addresses of all Paying Agents;

(vi) the procedures that Holders must follow and the requirements that Holders must satisfy in order to exercise the Change of Control Put Right; and

(vii) that a Put Exercise Notice, once validly given, is irrevocable and may not be withdrawn.

For the purpose of these Conditions:

(A) a "**Change of Control**" means the occurrence of one or more of the following events:

(i) the merger, amalgamation or consolidation of the Issuer with or into another Person (other than one or more Permitted Holders) or the merger or amalgamation of another Person (other than one or more Permitted Holders) with or into the Issuer in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Issuer or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the Voting Stock of the Issuer outstanding immediately prior to such transaction is converted into or exchanged for (or continues as) Voting Stock (other than Disqualified Stock) of the surviving or transferee Person constituting a majority of the outstanding shares of Voting Stock of such surviving or transferee Person (immediately after giving effect to such issuance) and in substantially the same proportion as before the transaction, or the direct or indirect sale of all or substantially all the consolidated assets of the Issuer to another Person (other than one or more Permitted Holders); or

(ii) the Permitted Holders are the beneficial owners of less than 50.1% of the total voting power of the Voting Stock of the Issuer; or

(iii) the adoption of a plan relating to the liquidation or dissolution of the Issuer.

(B) "**Permitted Holders**" means any or all of the following:

(i) Mr. YU Pan;

(ii) any Affiliate (other than an Affiliate as defined in clauses (2) or (3) of the definition of Affiliate) or the estate of any of the Persons specified in clause (i); and

(iii) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% or more by one or more of the Persons specified in clauses (i) and (ii).

(d) Purchase

The Issuer or any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the Holder to vote at any meetings of the Holders and shall not be deemed to be outstanding for certain purposes, including without limitation for the purpose of calculating quorums at meetings of the Holders or for the purposes of Condition 9, Condition 12(a) and Condition 13.

(e) Notice of redemption

All Bonds in respect of which any notice of redemption is given under this Condition 6 shall be redeemed on the date, in such place and in such manner as specified in such notice in accordance with this Condition 6. If there is more than one notice of redemption given in respect of any Bond (which shall include any notice given by the Issuer pursuant to Condition 6(b) and any Put Exercise Notice given by a Bondholder pursuant to Condition 6(c)), the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given shall prevail. Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying any calculations of any amounts payable under any notice of redemption and none of them shall be liable to Holders, the Issuer or any other person for not doing so.

(f) Cancellation

All Certificates representing the Bonds purchased by or on behalf of the Issuer and its Subsidiaries shall be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Bonds shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Bonds shall be discharged.

7 PAYMENTS

(a) Method of Payment:

(i) Payments of principal and premium (if any) shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Bonds represented by such Certificates) in the manner provided in Condition 7(a)(ii).

(ii) Interest on each Bond shall be paid to the person shown on the Register at the close of business on the fifth Payment Business Day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Bond shall be made in U.S. dollars by cheque drawn on a bank and mailed to the Holder (or to the first named of joint Holders) of such Bond at its address appearing on the Register. Upon application by the Holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in U.S. dollars maintained by the payee with a bank.

(iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested in writing by the Issuer or a Bondholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of premium (if any) or interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of premium (if any) or interest so paid.

*Notwithstanding the foregoing, so long as the Global Certificate is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the Holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

(b) **Payments subject to Fiscal Laws**: Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Bondholders in respect of such payments.

(c) **Payment Initiation**: Where payment is to be made by transfer to an account in U.S. dollars, payment instructions (for value on the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated, and, where payment is to be made by cheque, the cheque will be mailed on the due date for payment, or, in the case of payments of principal and premium (if any) where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on the first Payment Business Day on which the Principal Paying Agent is open for business and on or following which the relevant Certificate is surrendered.

(d) **Appointment of Agents**: The Principal Paying Agent, the Registrar and the Transfer Agent initially appointed by the Issuer and their respective specified offices are listed below. The Principal Paying Agent, the Registrar and the Transfer Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, the Registrar, any Transfer Agent or any of the other Agents and to appoint additional or other Agents, *provided* that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent and (iv) such other agents as may be required by any other stock exchange on which the Bonds may be listed.

Notice of any such termination or appointment or any change of any specified office of an Agent shall promptly be given by the Issuer to the Bondholders.

(e) **Delay in Payment**: Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a Payment Business Day, if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so) or if a cheque mailed in accordance with Condition 7(a)(ii) arrives after the due date for payment.

(f) **Non-Payment Business Days**: If any date for payment in respect of any Bond is not a Payment Business Day, the Holder shall not be entitled to payment until the next following Payment Business Day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, "**Payment Business Day**" means a day (other than a Saturday, a Sunday or a public holiday) on which banks and foreign exchange markets are generally open for business in New York City, the place in which the specified office of the Principal Paying Agent is located, the place where payment is to be made by transfer to an account maintained with a bank in U.S. dollars and the place on which foreign exchange transactions may be carried on in U.S. dollars in the principal financial centre of the country of such currency.

8 TAXATION

All payments of principal of, and premium (if any) and interest on the Bonds will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Issuer or a Surviving Person (as defined in Condition 4(j)(1)("Consolidation, Merger and Sale of Assets") is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein) (each, as applicable, a "**Relevant Jurisdiction**"), or the jurisdiction through which payments are made or any political subdivision or taxing authority thereof or therein (each, together with a Relevant Jurisdiction, a "**Taxing Jurisdiction**"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Issuer or a Surviving Person, as the case may be, will pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Holder of each Bond of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

(a) for or on account of:

(i) any tax, duty, assessment or other governmental charge that would not have been imposed but for:

(A) the existence of any present or former connection between the Holder or beneficial owner of such Bond and the Taxing Jurisdiction, other than merely holding such Bond or the receipt of payments thereunder, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Taxing Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;

(B) the presentation of such Bond (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Bond became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Bond for payment on any date within such 30-day period;

(C) the failure of the Holder or beneficial owner to comply with a timely request of the Issuer or a Surviving Person, addressed to the Holder, to provide information concerning such Holder's or beneficial owner's nationality, residence, identity or connection with any Taxing Jurisdiction, if and to the extent that due and timely compliance with such request is required under the tax laws of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder; or

(D) the presentation of such Bond (in cases in which presentation is required) for payment in the Taxing Jurisdiction, unless such Bond could not have been presented for payment elsewhere;

(ii) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;

(iii) any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended ("**FATCA**"), any current or future Treasury Regulations or rulings promulgated thereunder, any law, regulation or other official guidance enacted in any jurisdiction implementing FATCA, any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA, or any agreement with the U.S. Internal Revenue Service under FATCA; or

(iv) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (i), (ii) and (iii); or

(b) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Taxing Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Bond, such mention shall be deemed to include payment of Additional Amounts provided for in the Trust Deed to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

9 EVENTS OF DEFAULT

If any of the following events (each, an "**Event of Default**") occurs and is continuing, the Trustee at its discretion may, and, if so requested in writing by Holders of at least 25 per cent. of the aggregate principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution, shall (provided in any such case that the Trustee shall have first been indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with any accrued but unpaid interest:

The following events will be defined as "**Events of Default**" in the Trust Deed:

(a) default in the payment of principal of (or premium, if any, on) the Bonds when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;

(b) default in the payment of interest on any Bond when the same becomes due and payable, and such default continues for a period of 30 consecutive days;

(c) default in the performance or breach of the provisions of the covenants described under "Consolidation, Merger and Sale of Assets," the failure by the Issuer to make or consummate an Offer to redeem in the manner described under the captions "Redemption for Change of Control" or "Limitation on Asset Sales";

(d) the Issuer or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Trust Deed or under the Bonds (other than a default specified in clause (a), (b) or (c) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Bonds;

(e) there occurs with respect to any Indebtedness of the Issuer or any Restricted Subsidiary having an outstanding principal amount of US$10.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (1) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (2) the failure to make a principal payment when due;

(f) one or more final judgments or orders for the payment of money are rendered against the Issuer or any of its Restricted Subsidiaries and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US$10.0 million (or the Dollar Equivalent thereof) (in excess of amounts which the Issuer's insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

(g) an involuntary case or other proceeding is commenced against the Issuer or any Principal Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Principal Subsidiary) with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer or any Principal Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Principal Subsidiary) or for any substantial part of the property and assets of the Issuer or any Principal Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Principal Subsidiary) and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Issuer or any Principal Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Principal Subsidiary) under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect; or

(h) the Issuer or any Principal Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Principal Subsidiary) (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer or any Principal Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Principal Subsidiary) or for all or substantially all of the property and assets of the Issuer or any Principal Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Principal Subsidiary) or (c) effects any general assignment for the benefit of creditors (other than, in each case under (b), any of the foregoing that arises from any solvent liquidation or restructuring of a Principal Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Principal Subsidiary) in the ordinary course of business that shall result in the net assets of such Principal Subsidiary (or any group of Restricted Subsidiaries that together would constitute a Principal Subsidiary) being transferred to or otherwise vested in the Issuer or any Restricted Subsidiary on a pro rata basis or on a basis more favorable to the Issuer).

In this Condition 9:

"**Principal Subsidiary**" means any Subsidiary of the Issuer:

(a) whose operating income or (in the case of a Subsidiary which itself has Subsidiaries) consolidated total operating income, as shown by its latest audited income statement, is at least five per cent. of the consolidated operating income as shown by the latest published audited consolidated income statement of the Issuer and its Subsidiaries including, for the avoidance of doubt, the Issuer and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or

(b) whose operating profits or (in the case of a Subsidiary which itself has Subsidiaries) consolidated operating profits, as shown by its latest audited income statement, is at least five per cent. of the consolidated operating profits as shown by the latest published audited consolidated income statement of the Issuer and its Subsidiaries including, for the avoidance of doubt, the Issuer and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or

(c) whose total assets or (in the case of a Subsidiary which itself has Subsidiaries) consolidated total assets, as shown by its latest audited balance sheet, are at least five per cent. of the amount which equals the amount included in the consolidated total assets of the Issuer and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Issuer and its Subsidiaries including, for the avoidance of doubt, the investment of the Issuer in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Issuer and after adjustment for minority interests; or

(d) to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, provided that the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall cease to be a Principal Subsidiary at the date on which the first audited accounts (consolidated, if appropriate), of the Issuer prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such accounts by virtue of the provisions of paragraphs (a), (b) or (c) above of this definition;

provided that, in relation to paragraphs (a), (b) and (c) above of this definition:

(i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Issuer relate, the reference to the then latest consolidated audited accounts of the Issuer for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published be deemed to be a reference to the then latest consolidated audited accounts of the Issuer adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;

(ii) if at any relevant time in relation to the Issuer or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, operating income, operating profits or total assets for the year of the Issuer and/or any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by or on behalf of the Issuer;

(iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its operating income, operating profits or total assets for the year (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by or on behalf of the Issuer; and

(iv) if the accounts of any Subsidiary (not being a Subsidiary referred to in proviso (i) above of this definition) are not consolidated with those of the Issuer, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Issuer prepared for this purpose by the Issuer.

10 PRESCRIPTION

Claims against the Issuer for payment in respect of the Bonds shall be prescribed and become void unless made within 10 years (in the case of principal or premium (if any)) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11 REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or any Transfer Agent, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer, the Registrar or the relevant Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 MEETINGS OF HOLDERS, MODIFICATION, WAIVER, AUTHORISATION, DETERMINATION AND ENTITLEMENT OF TRUSTEE

(a) Meetings of Holders

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any of the provisions of the Trust Deed. Such a meeting may be convened by the Trustee or the Issuer and shall be convened by the Trustee upon request in writing from Bondholders holding not less than 10 per cent. in aggregate principal amount of the Bonds for the time being outstanding and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in aggregate principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented unless the business of such meeting includes the modification or abrogation of certain of the provisions of these Conditions and certain of the provisions of the Trust Deed, including consideration of proposals, *inter alia*, (i) to modify the maturity date of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, any premium payable on redemption of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds or (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 75 per cent., or at any adjourned such meeting not less than 25 per cent., in aggregate principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders, whether or not they were present at the meeting at which such resolution was passed.

The Trust Deed provides that a resolution in writing signed by or on behalf of the Bondholders of not less than 90 per cent. in principal amount of the Bonds for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

The Trust Deed provides that consent given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the Bondholders of not less than 75 per cent. in principal amount of the Bonds for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held.

(b) Modification, Waiver, Authorisation and Determination

The Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, or any failure to comply with any of these Conditions or any of the provisions of the Trust Deed which in its opinion is not materially prejudicial to the interest of the Bondholders, or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with any mandatory provision of applicable law. Any such modification, waiver or authorisation shall be binding on the Bondholders and, unless the Trustee agrees otherwise, such modification, waiver or authorisation shall be notified to the Bondholders by the Issuer as soon as practicable thereafter in accordance with Condition 16.

(c) Entitlement of the Trustee

In connection with the exercise of its functions, rights, powers and/or discretions (including but not limited to those referred to in this Condition 12), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

13 ENFORCEMENT

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed and/or the Bonds, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in principal amount of the Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Bondholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14 TRUSTEE AND AGENTS

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances and to be paid its fees, costs and expenses in priority to the Bondholders. The Trustee and the Agents are entitled to enter into business transactions with the Issuer and/or any entity related to the Issuer without accounting for any profit.

The Trustee may rely without liability to Bondholders on any report, information, confirmation or certificate from or any opinion or advice of any accountants, auditors, lawyers, valuers, auctioneers, surveyors, brokers, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, information, confirmation, certificate, opinion or advice, in which case such report, information, confirmation, certificate, opinion or advice shall be binding on the Issuer and the Bondholders.

Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Agency Agreement or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision or giving any such direction, to seek directions from the Bondholders by way of Extraordinary Resolution and shall have been indemnified and/or secured and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee shall not be responsible for any loss or liability incurred by the Issuer, the Bondholders or any other person as a result of any delay in it exercising such discretion or power, taking such action, making such decision or giving such direction as a result of seeking such direction from the Bondholders or in the event that no direction is given to the Trustee by the Bondholders.

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer and any other person appointed by the Issuer in relation to the Bonds of the duties and obligations on their part expressed in respect of the same and, unless it has written notice from the Issuer to the contrary, the Trustee and each Agent shall be entitled to assume that the same are being duly performed. None of the Trustee or any Agent shall be liable to any Bondholder, the Issuer or any other person for any action taken by the Trustee or such Agent in accordance with the instructions of the Bondholders. The Trustee shall be entitled to rely on any direction, request or resolution of Bondholders given by Bondholders holding the requisite principal amount of Bonds outstanding or passed at a meeting of Bondholders convened and held in accordance with the Trust Deed.

The Trustee and the Agents shall have no obligation to monitor compliance with the provisions of the Trust Deed, the Agency Agreement or these Conditions or to monitor whether an Event of Default or a Potential Event of Default or a Change of Control has occurred, and shall not be liable to the Bondholders or any other person for not doing so.

15 FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Holders to create and issue further securities having the same terms and conditions as the Bonds in all material respects (or in all material respects save for the issue date, the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) and so that the same shall be consolidated and form a single series with the outstanding Bonds. Any further securities shall be constituted by a deed supplemental to the Trust Deed.

16 NOTICES

All notices to the Holders will be valid if (i) mailed to them by uninsured mail at their respective addresses in the Register and (ii) published in a leading newspaper having general circulation in Asia. The Issuer shall also ensure that notices are duly published in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed. Any notice shall be deemed to have been given, on the date of such publication or, if published more than once, on the first date on which publication is made.

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear Bank S.A./N.V. or Clearstream Banking S.A. or the Alternative Clearing System (as defined in the form of the Global Certificate), notices to the Holders shall be validly given by the delivery of the relevant notice to Euroclear Bank S.A./N.V. or Clearstream Banking S.A. or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

17 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999. But this should not affect any right or remedy which exists or is available apart from such Act.

18 GOVERNING LAW AND JURISDICTION

(a) Governing Law

The Trust Deed, the Agency Agreement and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) Jurisdiction

The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Bonds, the Trust Deed and the Agency Agreement and any non-contractual obligations arising out of or in connection with them and accordingly any legal action or proceedings arising out of or in connection therewith ("**Proceedings**") may be brought in such courts. The Issuer has in the Trust Deed, irrevocably submitted to the jurisdiction of such courts and waived any objection to Proceedings in any such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

19 DEFINITIONS

For the purpose of these Conditions, the following words and phrases shall have the following meanings:

"**Acquired Indebtedness**" means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

"**Affiliate**" means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (1) or (2). For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"**Asset Acquisition**" means (1) an investment by the Issuer or any Restricted Subsidiary in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Issuer or any Restricted Subsidiary; or (2) an acquisition by the Issuer or any Restricted Subsidiary of the property and assets of any Person other than the Issuer or any Restricted Subsidiary that constitute substantially all of a division or line of business of such Person.

"**Asset Disposition**" means the sale or other disposition by the Issuer or any Restricted Subsidiary (other than to the Issuer or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary; or (2) all or substantially all of the assets that constitute a division or line of business of the Issuer or any Restricted Subsidiary.

"**Asset Sale**" means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale of Capital Stock of a Subsidiary or issuance of Capital Stock by a Restricted Subsidiary) in one transaction or a series of related transactions by the Issuer or any Restricted Subsidiary to any Person; *provided* that "Asset Sale" shall not include:

(1) sales, transfers or other dispositions of inventory, receivables and other current assets (including properties under development for sale and completed properties for sale) in the ordinary course of business;

(2) sales or other dispositions of cash and Temporary Cash Investments;

(3) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under Condition 4(b) (Limitation on Restricted Payments);

(4) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US$1.0 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;

(5) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Issuer or its Restricted Subsidiaries;

(6) any transfer, assignment or other disposition deemed to occur in connection with creating or granting of any Permitted Lien not prohibited by Condition 4(g) (Limitations on Liens);

(7) a transaction covered under Condition 4(j) (Consolidation, Merger and Sale of Assets); and

(8) any sale, transfer or other disposition by the Issuer or any Restricted Subsidiary, including the sale or issuance by the Issuer or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary, to the Issuer or any Restricted Subsidiary.

"**Attributable Indebtedness**" means, in respect of a Sale and Leaseback Transaction, at the time of determination, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction, including any period for which such lease has been extended or may, at the option of the lessor, be extended.

"**Average Life**" means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

"**Bank Deposit Secured Indebtedness**" means Indebtedness of the Issuer or any Restricted Subsidiary that is secured by cash deposits, bank accounts or other assets of the Issuer or a Restricted Subsidiary and/or (ii) guaranteed by a guarantee or a letter of credit (or similar instruments) from or arranged by the Issuer or a Restricted Subsidiary and is used by the Issuer and its Restricted Subsidiaries to in effect exchange foreign currencies or remit money onshore or offshore.

"**Board of Directors**" means the board of directors of the Issuer or any committee of such board duly authorized to take the action purported to be taken by such committee.

"**Board Resolution**" means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

"**Business Day**" means, except as used in Condition 3(c), any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London, the PRC or Hong Kong (or in any other place in which payments on the Bonds are to be made) are authorized by law or governmental regulation to close.

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible or exchangeable into such equity.

"**Capitalized Lease**" means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

"**Capitalized Lease Obligations**" means the discounted present value of the rental obligations under a Capitalized Lease.

"**Commodity Agreement**" means any spot, forward or option commodity price protection agreements or other similar agreement or arrangement designed to manage or reduce exposure to fluctuations in commodity prices.

"**Common Stock**" means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock or ordinary shares, whether or not outstanding at the date of the Trust Deed, and includes, without limitation, all series and classes of such common stock or ordinary shares.

"**Consolidated Assets**" means, with respect to any Restricted Subsidiary at any date of determination, the Issuer and its Restricted Subsidiaries' proportionate interest in the total consolidated assets of such Restricted Subsidiary and its Subsidiaries (other than Unrestricted Subsidiaries) measured in accordance with GAAP as of the last day of the most recent fiscal quarter period for which consolidated financial statements of the Issuer and its Restricted Subsidiaries (which the Issuer shall use its reasonable best efforts to compile in a timely manner) are available and have been provided to the Trustee.

"**Consolidated EBITDA**" means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

(1) Consolidated Interest Expense,

(2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets), and

(3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period and other than losses on Investment Properties arising from fair value adjustments made in conformity with GAAP), less all non-cash items increasing Consolidated Net Income (other than gains on Investment Properties arising from fair value adjustments made in conformity with GAAP and gains on disposals of Capital Stock of any Restricted Subsidiary which holds Investment Properties),

all as determined on a consolidated basis for the Issuer and its Restricted Subsidiaries in conformity with GAAP; *provided* that (1) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Issuer or any Restricted Subsidiary and (2) in the case of any future PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

"**Consolidated Fixed Charges**" means, for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Issuer or any Restricted Subsidiary held by Persons other than the Issuer or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Issuer's Capital Stock (other than Disqualified Stock) or paid to the Issuer or to a Wholly Owned Restricted Subsidiary.

"**Consolidated Interest Expense**" means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Issuer and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by the Issuer and its Restricted Subsidiaries, without duplication, (1) interest expense attributable to Capitalized Lease Obligations, (2) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (3) the interest portion of any deferred payment obligation, (4) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (5) the net costs associated with Hedging Obligations (including the amortization of fees), (6) interest accruing on Indebtedness of any other Person that is guaranteed by, or secured by a Lien on any asset of, the Issuer or any Restricted Subsidiary (other than Pre-Registration Mortgage Guarantees) only to the extent such interest has become payable by the Issuer or any Restricted Subsidiary and (7) any capitalized interest, *provided* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a *pro forma* basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

"**Consolidated Net Income**" means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

(1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:

(a) subject to the exclusion contained in clause (5) below, the Issuer's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Issuer or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and

(b) the Issuer's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Issuer or any Restricted Subsidiary;

(2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Issuer or any Restricted Subsidiary or all or substantially all of the property and assets of such Person are acquired by the Issuer or any Restricted Subsidiary;

(3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;

(4) the cumulative effect of a change in accounting principles;

(5) any net after tax gains realized on the sale or other disposition of (a) any property or assets of the Issuer or any Restricted Subsidiary which is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Issuer realized on sales of Capital Stock of the Issuer or other Restricted Subsidiaries);

(6) any translation gains or losses due solely to fluctuations in currency values and related tax effects; and

(7) any net after-tax extraordinary or non-recurring gains.

provided that (A) solely for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains derived from direct or indirect sale by the Issuer or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the current book value and the cash sale price shall be added to Consolidated Net Income; (B) for purposes of this Consolidated Net Income calculation (but not for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio) any net after tax gains derived from direct or indirect sale by the Issuer or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the original cost basis and the cash sale price shall be added to Consolidated Net Income to the extent not already included in the net income for such period as determined in conformity with GAAP and Consolidated Net Income and (C) solely for the purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains on Investment Properties arising from fair value adjustments made in conformity with GAAP shall be added to Consolidated Net Income.

"**Consolidated Net Worth**" means, at any date of determination, stockholders' equity as set forth on the most recently available quarterly, semi-annual or annual consolidated balance sheet of the Issuer and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Issuer, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Issuer or any Restricted Subsidiary, each item to be determined in conformity with GAAP.

"**Contractor Guarantees**" means any guarantee by the Issuer or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Issuer or such Restricted Subsidiary in connection with the development, construction or improvement of real or personal property or equipment to be used in a Permitted Business by the Issuer or any Restricted Subsidiary in the ordinary course of business, which Indebtedness was Incurred by such contractor, builder or other similar Person to finance the cost of such development, construction or improvement.

"**Currency Agreement**" means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

"**Default**" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"**Disqualified Stock**" means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the date that is 183 days after the Stated Maturity of the Bonds, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the date that is 183 days after the Stated Maturity of the Bonds or (3) convertible into or exchangeable for (or options, warrants or other rights exercisable for) Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the date that is 183 days after the Stated Maturity of the Bonds; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the Stated Maturity of the Bonds shall not constitute Disqualified Stock if the "asset sale" or "change of control" provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in Condition 4(i) (Limitation on Asset Sales) and Condition 6(c) (Redemption for Change of Control) and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Issuer's repurchase of such Bonds as are required to be repurchased pursuant to Condition 4(i) (Limitation on Asset Sales) and Condition 6(c) (Redemption for Change of Control).

"**Dollar Equivalent**" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

"**Entrusted Loans**" means borrowings by a Restricted Subsidiary from the Issuer or another Restricted Subsidiary (whether directly or through or facilitated by a bank or other financial institution), *provided* that such borrowings are not reflected as borrowings on the consolidated balance sheet of the Issuer.

"**Euroclear**" means Euroclear Bank SA/NV.

"**Exchange Act**" means the U.S. Securities Exchange Act of 1934, as amended.

"**Fair Market Value**" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution.

"**Fitch**" means Fitch Ratings Ltd., a subsidiary of the Fitch Group, a jointly owned subsidiary of Fimalae, S.A. and Hearst Corporation, and its successors.

"**Fixed Charge Coverage Ratio**" means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent four fiscal quarters prior to such Transaction Date for which consolidated financial statements of the Issuer (which the Issuer shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the "**Four Quarter Period**") to (2) the aggregate Consolidated Fixed Charges during such Four Quarter Period. In making the foregoing calculation:

(1) *pro forma* effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the "**Reference Period**") commencing on and including the first day of the Four Quarter Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Quarter Period), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Issuer or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay or redeem such Indebtedness, Disqualified Stock or Preferred Stock;

(2) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a *pro forma* basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;

(3) *pro forma* effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;

(4) *pro forma* effect shall be given to Asset Dispositions and Asset Acquisitions (including giving *pro forma* effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and

(5) *pro forma* effect shall be given to asset dispositions and asset acquisitions (including giving *pro forma* effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged or consolidated with or into the Issuer or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (4) or (5) above requires that *pro forma* effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be based upon the four full fiscal quarters immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

"**GAAP**" means generally accepted accounting principles in Hong Kong as in effect from time to time.

"**guarantee**" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), provided that the term "guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "guarantee" used as a verb has a corresponding meaning.

"**Hedging Obligation**" of any Person means the obligations of such Person pursuant to any Commodity Agreement, Currency Agreement or Interest Rate Agreement.

"**Holder**" means the Person in whose name a Bond is registered in the Bond register.

"**Incur**" means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided* that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount, the accrual of interest, the accrual of dividends, the payment of interest in the form of additional Indebtedness and the payment of dividends in the form of additional shares of Preferred Stock or Disqualified Stock shall not be considered an Incurrence of Indebtedness. The terms "Incurrence," "Incurred" and "Incurring" have meanings correlative with the foregoing.

"**Indebtedness**" means, with respect to any Person at any date of determination (without duplication):

(1) all indebtedness of such Person for borrowed money;

(2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments;

(4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;

(5) all Capitalized Lease Obligations and Attributable Indebtedness;

(6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; provided that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;

(7) all Indebtedness of other Persons guaranteed by such Person to the extent such Indebtedness is guaranteed by such Person;

(8) to the extent not otherwise included in this definition, Hedging Obligations; and

(9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase or redemption price plus accrued dividends.

For the avoidance of doubt, a mandatory put option granted to a Person that obligates the Issuer or any Restricted Subsidiary to repurchase the Capital Stock of any Restricted Subsidiary or any other Person, shall be deemed to be "Indebtedness."

Notwithstanding the foregoing, Indebtedness shall not include any capital commitments, deferred payment obligations, Entrusted Loans, pre-sale receipts in advance from customers or similar obligations Incurred in the ordinary course of business in connection with the acquisition, development, construction or improvement of real or personal property (including land use rights) to be used in a Permitted Business; *provided* that such Indebtedness is not reflected as borrowings on the consolidated balance sheet of the Issuer (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected as borrowings on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided* that

(1) the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP,

(2) money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "Indebtedness" so long as such money is held to secure the payment of such interest, and

(3) the amount of Indebtedness with respect to any Hedging Obligation shall be: (i) zero if Incurred pursuant to clause (2)(f) under Condition 4(a) (Limitation on Indebtedness and Preferred Stock), or (ii) equal to the net amount payable by such Person if such Hedging Obligation were terminated at or prior to that time if not Incurred pursuant to such clause.

"**Independent Third Party**" means any Person that is not an Affiliate of the Issuer.

"**Interest Rate Agreement**" means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

"**Investment**" means:

(1) any direct or indirect advance, loan or other extension of credit to another Person;

(2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);

(3) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or

(4) any guarantee of any obligation of another Person to the extent such obligation is outstanding and to the extent guaranteed by such Person.

For the purposes of the provisions of the Condition 4(l) (Designation of Restricted and Unrestricted Subsidiaries) and Condition 4(b) (Limitation on Restricted Payments): (1) the Issuer will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Issuer's proportional interest in the Fair Market Value of the assets (net of the Issuer's proportionate interest in the liabilities owed to any Person other than the Issuer or a Restricted Subsidiary and that are not guaranteed by the Issuer or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation, (2) if the Issuer or any Restricted Subsidiary sells or otherwise disposes of any Capital Stock of any direct or indirect Restricted Subsidiary such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary, the Issuer will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Capital Stock of such Person not sold or disposed of and (3) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

"**Investment Property**" means any property that is owned and held by the Issuer or any Restricted Subsidiary for long-term rental yields or for capital appreciation or both or for self use, or any hotel owned by the Issuer or any Restricted Subsidiary from which the Issuer or any Restricted Subsidiary derives or expects to derive operating income.

"**Lien**" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

"**Minority Joint Venture**" means any corporation, association or other business entity that is accounted for by the equity method of accounting in accordance with GAAP by the Issuer or a Restricted Subsidiary and primarily engaged in the Permitted Businesses, and such Minority Joint Venture's Subsidiaries.

"**Minority Interest Staged Acquisition Agreement**" means an agreement between the Issuer and/or any Restricted Subsidiary on the one hand and an Independent Third Party on the other (x) pursuant to which the Issuer and/or such Restricted Subsidiary agrees to acquire less than a majority of the Capital Stock of a person for a consideration that is not more than the Fair Market Value of such Capital Stock at the time the Issuer and/or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one instalment over a period of time.

"**Moody's**" means Moody's Investors Service, Inc. and its successors.

"**Net Cash Proceeds**" means:

(1) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:

   (a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment banks) related to such Asset Sale;

   (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Issuer and its Restricted Subsidiaries, taken as a whole;

   (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;

   (d) appropriate amounts to be provided by the Issuer or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and

(2) with respect to any issuance or sale of Capital Stock or securities convertible or exchangeable into Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"**Offer to Purchase**" means an offer to purchase Bonds by the Issuer from the Holders commenced by the Issuer mailing a notice by first class mail, postage prepaid, to the Trustee, the Paying Agent and each Holder at its last address appearing in the Bond register stating:

(1) the provision in the Trust Deed pursuant to which the offer is being made and that all Bonds validly tendered will be accepted for payment on a pro rata basis;

(2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the "Offer to Purchase Payment Date");

(3) that any Bond not tendered will continue to accrue interest pursuant to its terms;

(4) that, unless the Issuer defaults in the payment of the purchase price, any Bond accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;

(5) that Holders electing to have a Bond purchased pursuant to the Offer to Purchase will be required to surrender the Bond, together with the form entitled "Option of the Holder to Elect Purchase" on the reverse side of the Bond completed, to the tender agent (the "**Tender Agent**") at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;

(6) that Holders will be entitled to withdraw their election if the Tender Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Bonds delivered for purchase and a statement that such Holder is withdrawing his election to have such Bonds purchased; and

(7) that Holders whose Bonds are being purchased only in part will be issued new Bonds equal in principal amount to the unpurchased portion of the Bonds surrendered; provided that each Bond purchased and each new Bond issued shall be in a principal amount of US$200,000 or integral multiples of US$1,000 in excess thereof.

On one Business Day prior to the Offer to Purchase Payment Date, the Issuer shall deposit with the Tender Agent money sufficient to pay the purchase price of all Bonds or portions thereof so accepted. On the Offer to Purchase Payment Date, the Issuer shall (a) accept for payment on a pro rata basis Bonds or portions thereof tendered pursuant to an Offer to Purchase and (b) deliver, or cause to be delivered, to the Trustee all Bonds or portions thereof so accepted together with an Officers' Certificate specifying the Bonds or portions thereof accepted for payment by the Issuer. The Tender Agent shall promptly mail to the Holders of Bonds so accepted payment in an amount equal to the purchase price, and the Trustee or an authenticating agent shall promptly authenticate and mail to such Holders a new Bond equal in principal amount to any unpurchased portion of the Bond surrendered; *provided* that each Bond purchased and each new Bond issued shall be in a principal amount of US$200,000 or integral multiples of US$1,000 in excess thereof. The Issuer will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Issuer will comply with all applicable securities laws and regulations, in the event that the Issuer is required to repurchase Bonds pursuant to an Offer to Purchase.

To the extent that the provisions of any securities laws or regulations of any jurisdiction conflict with the provisions of the Trust Deed governing any Offer to Purchase, the Issuer and the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Trust Deed by virtue of such compliance. The Issuer will not be required to make an Offer to Purchase if a third party makes the Offer to Purchase in compliance with the requirements set forth in the Trust Deed applicable to an Offer to Purchase made by the Issuer and purchases all Bonds properly tendered and not withdrawn under the Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Issuer and its Subsidiaries which the Issuer in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Issuer to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Bonds pursuant to the Offer to Purchase.

"**Officer**" means one of the directors or executive officers of the Issuer.

"**Officers' Certificate**" means a certificate signed by two Officers.

"**Opinion of Counsel**" means a written opinion from legal counsel who is acceptable to the Trustee.

"**Permitted Businesses**" means any business which is the same as or related, ancillary or complementary to any of the businesses of the Issuer and its Restricted Subsidiaries on the Issue Date.

"**Permitted Investment**" means:

(1) any Investment in the Issuer or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, the Issuer or a Restricted Subsidiary that is primarily engaged in a Permitted Business;

(2) Temporary Cash Investments;

(3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;

(4) stock, obligations or securities received in satisfaction of judgments;

(5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;

(6) any Investment pursuant to a Hedging Obligation designed solely to protect the Issuer or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates and not for speculation;

(7) (x) receivables owing to the Issuer or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms or (y) if created or acquired in the ordinary course of business in connection with any sale or disposal of any asset of the Issuer or any Restricted Subsidiary, which receivable shall be paid within 24 months after the creation or acquisition thereof;

(8) Investments consisting of consideration received in connection with an Asset Sale made in compliance with Condition 4(i) (Limitation on Asset Sales);

(9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under Condition 4(g) (Limitation on Liens);

(10) any Investment pursuant to Contractor Guarantees by the Issuer or any Restricted Subsidiary otherwise permitted to be Incurred under the Trust Deed;

(11) Investments in securities of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer;

(12) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of business that are recorded as deposits or prepaid expenses on the Issuer's consolidated balance sheet;

(13) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of business;

(14) deposits made in order to secure the performance of the Issuer or any of its Restricted Subsidiaries and prepayments made in connection with the direct or indirect acquisition of real property or land use rights by the Issuer or any of its Restricted Subsidiaries, in each case in the ordinary course of business;

(15) advances or prepayments to government authorities or government-affiliated entities, collective economic organizations, existing land or building owners, holders, occupants or lessees, or related agents in the PRC in connection with the financing of primary land development or urban redevelopment plans in the ordinary course of business that are recorded as assets in the Issuer's balance sheet;

(16) Guarantees permitted under Condition 4(a) (Limitation on Indebtedness and Preferred Stock);

(17) deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title in the ordinary course of business;

(18) any Investment pursuant to Pre-Registration Mortgage Guarantees by the Issuer or any Restricted Subsidiary otherwise permitted to be Incurred under the Trust Deed;

(19) repurchases of the Bonds; and

(20) any Investment (including any deemed Investment upon the redesignation of a Restricted Subsidiary as an Unrestricted Subsidiary or upon the sale of Capital Stock of a Restricted Subsidiary) by the Issuer or any Restricted Subsidiary in any Person which is primarily engaged in the Permitted Businesses (other than a Restricted Subsidiary), *provided* that:

(i) the aggregate of all Investments made under this clause (20) since the Issue Date shall not exceed in aggregate an amount equal to 15% of Total Assets. Such aggregate amount of Investments shall be calculated after deducting an amount equal to the net reduction in all Investments made under this clause (20) since the Issue Date resulting from:

(A) payments of interest on Indebtedness, dividends or repayments of loans or advances made under this clause, in each case to the Issuer or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income),

(B) the unconditional release of a Guarantee provided by the Issuer or a Restricted Subsidiary after the Issue Date under this clause (20) of an obligation of any such Person, or

(C) to the extent that an Investment made after the Issue Date under this clause (20) is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, not to exceed, in each case, the amount of Investments made by the Issuer or a Restricted Subsidiary after the Issue Date in any such Person pursuant to this clause (20);

(ii) no Default has occurred and is continuing or would occur as a result of such Investment;

(iii) the Issuer or such Restricted Subsidiary owns, directly or indirectly, no less than 20% of the voting power of the outstanding Voting Stock of the Person into which such Investment is made (after giving effect to such Investment); and

(iv) at the time of such Investment, the Issuer could Incur at least US$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of Condition 4(a) (Limitation of Indebtedness and Preferred Stock).

For the avoidance of doubt, the value of each Investment made pursuant to this clause (20) shall be valued at the time such Investment is made.

"**Permitted Liens**" means:

(1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds, utility services, developer's or other obligations to make site or off-site improvement and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);

(4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Issuer and its Restricted Subsidiaries, taken as a whole;

(5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Issuer or its Restricted Subsidiaries relating to such property or assets;

(6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Issuer or any Restricted Subsidiary other than the property or assets acquired; provided further that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;

(7) Liens in favor of the Issuer or any Restricted Subsidiary;

(8) Liens arising from the rendering of a final judgment or order against the Issuer or any Restricted Subsidiary that does not give rise to an Event of Default;

(9) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;

(10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Hedging Obligations permitted by clause (2)(e) of Condition 4(a) (Limitation on Indebtedness and Preferred Stock);

(11) Liens existing on the Issue Date;

(12) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (2)(d) of Condition 4(a) (Limitation on Indebtedness and Preferred Stock); *provided* that such Liens do not extend to or cover any property or assets of the Issuer or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;

(13) any interest or title of a lessor in the property subject to any operating lease;

(14) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Issuer or any Restricted Subsidiary;

(15) Liens (including extensions and renewals thereof) upon real or personal property; *provided* that (a) such Lien is created solely for the purpose of securing Indebtedness of the type described under clause (2)(f) of Condition 4(a) (Limitation on Indebtedness and Preferred Stock) and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such property (b) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (c) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item; *provided* that, in the case of clauses (b) and (c), such Lien may cover other property or assets (instead of or in addition to such item of property and improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such cost if (x) such Lien is incurred in the ordinary course of business and (y) the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Issuer (which may be internal consolidated financial statements) or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (15) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;

(16) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Issuer or any Restricted Subsidiary;

(17) Liens securing Indebtedness which is permitted to be Incurred under clause (2)(k) of Condition 4(a) (Limitation on Indebtedness and Preferred Stock);

(18) Liens securing Indebtedness which is permitted to be Incurred under clause (2)(l) of Condition 4(a) (Limitation on Indebtedness and Preferred Stock);

(19) Liens made to secure Bank Deposit Secured Indebtedness permitted to be Incurred under clause (2)(n) of Condition 4(a) (Limitation on Indebtedness and Preferred Stock);

(20) Liens Incurred on the Capital Stock of the Person that is to be acquired under the relevant Staged Acquisition Agreement or Minority Interest Staged Acquisition Agreement securing Indebtedness permitted to be Incurred under clause (2)(o) of Condition 4(a) (Limitation on Indebtedness and Preferred Stock);

(21) Liens securing Indebtedness of the Issuer or any Restricted Subsidiary under any Pre-Registration Mortgage Guarantee permitted to be Incurred under clause (2)(p) of Condition 4(a) (Limitation on Indebtedness and Preferred Stock);

(22) Liens on Investment Properties securing Indebtedness of the Issuer or any Restricted Subsidiary which is permitted to be Incurred under clause (2)(r) of Condition 4(a) (Limitation on Indebtedness and Preferred Stock);

(23) Liens on deposits made in order to secure the performance of the Issuer or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights (including acquisition of Capital Stock of a Restricted Subsidiary which holds the real property or land use rights) by the Issuer or any of its Restricted Subsidiaries in the ordinary course of business and not securing Indebtedness of the Issuer or any Restricted Subsidiary;

(24) Liens on deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title made in the ordinary course of business and not securing Indebtedness of the Issuer or any Restricted Subsidiary;

(25) Liens Incurred on deposits made to secure Entrusted Loans;

(26) Liens granted by the Issuer or a Restricted Subsidiary in favor of a Trust Company Investor in respect of, and to secure, the Indebtedness permitted under clause 2(s) of the covenant described under Condition 4(a) (Limitation on Indebtedness and Preferred Stock); and

(27) Liens securing Indebtedness which is permitted to be Incurred under clauses (2)(t), (2)(u) and (2)(v) of Condition 4(a) (Limitation on Indebtedness and Preferred Stock).

"**Permitted Subsidiary Indebtedness**" means Indebtedness of, and all Preferred Stock issued by Restricted Subsidiaries; *provided* that, on the date of the Incurrence of such Indebtedness and after giving *pro forma* effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness or issuance of such Preferred Stock, as the case may be (excluding, without duplication, any Public Indebtedness and any Indebtedness of any Restricted Subsidiary permitted under clauses (2)(a), (2)(c), (2)(e), (2)(k), (2)(o) and (2)(p) of Condition 4(a) (Limitation on Indebtedness and Preferred Stock)) does not exceed an amount equal to 20% of Total Assets.

a "**person**" or "**Person**" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organisation or government or any agency or political subdivision thereof;

"**PRC**" means the People's Republic of China, which shall for the purpose of these Conditions only, exclude Hong Kong Special Administrative Region of the People's Republic of China, Macau Special Administrative Region of the People's Republic of China and Taiwan;

"**PRC CJV**" means any Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People's Republic of China on Sino foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended.

"**PRC CJV Partner**" means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Issuer or any Restricted Subsidiary.

"**Pre-Registration Mortgage Guarantee**" means any Indebtedness of the Issuer or any Restricted Subsidiary consisting of a guarantee in favor of any bank or other similar financial institutions in the ordinary course of business of secured loans of purchasers of individual units of properties from the Issuer or any Restricted Subsidiary; *provided* that, any such guarantee shall be released in full on or before the perfection of a security interest in such properties under applicable law in favor of the relevant lender.

"**Preferred Stock**" as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its terms is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"**Public Indebtedness**" means any bonds, debentures, notes or similar debt securities issued in a public offering or a private placement (other than the Bonds) to institutional investors.

"**Replacement Assets**" means, on any date, (1) properties or assets that replace the properties and assets that were the subject of such Asset Sale that are used in a Permitted Business or (2) property or assets (other than current assets) of a nature or type that are used in a Permitted Business, including the Capital Stock of any Person holding such property or assets that is primarily engaged in a Permitted Business and will, upon the acquisition by the Issuer or any Restricted Subsidiary of such Capital Stock, become a Restricted Subsidiary.

"**Restricted Subsidiary**" means any Subsidiary of the Issuer other than an Unrestricted Subsidiary.

"**S&P**" means Standard & Poor's Ratings Services and its affiliates.

"**Sale and Leaseback Transaction**" means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Issuer or any Restricted Subsidiary transfers such property to another Person and the Issuer or any Restricted Subsidiary leases it from such Person.

"**Securities Act**" means the U.S. Securities Act of 1933, as amended.

"**SEHK**" means The Stock Exchange of Hong Kong Limited.

"**Senior Indebtedness**" of the Issuer or a Restricted Subsidiary, as the case may be, means all Indebtedness of the Issuer or the Restricted Subsidiary, as relevant, whether outstanding on the Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to the Bonds; *provided* that Senior Indebtedness does not include (1) any obligation to the Issuer or any Restricted Subsidiary, (2) Trade Payables or (3) Indebtedness Incurred in violation of the Trust Deed.

"**Staged Acquisition Agreement**" means an agreement between the Issuer or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Issuer or such Restricted Subsidiary agrees to acquire not less than a majority of the Capital Stock of a Person for consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Issuer or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

"**Stated Maturity**" means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

"**Subordinated Indebtedness**" means any Indebtedness of the Issuer which is contractually subordinated or junior in right of payment to the Bonds pursuant to a written agreement to such effect.

"**Subordinated Shareholder Loan**" means any loan to the Issuer or any Restricted Subsidiary from Permitted Holders which (i) is subordinated in right of payment to the Bonds, (ii) by its terms (and by the terms of any security into which it is convertible or for which it is exchangeable) does not mature and is not required to be repaid, pursuant to a sinking fund obligation event of default or otherwise, in whole or in part, on or prior to the date that is one year after the Stated Maturity of the Bonds and (iii) does not provide any cash payment of interest.

"**Subsidiary**" means, with respect to any Person, any corporation, association or other business entity of which (i) more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person or (ii) 50% or less of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person, and in each case which is "controlled" and consolidated by such Person in accordance with GAAP; *provided, however*, that with respect to clause (ii), the occurrence of any event (other than the issuance or sale of Capital Stock) as a result of which such corporation, association or other business entity ceases to be "controlled" by such Person under the GAAP and to constitute a Subsidiary of such Person shall be deemed to be an Investment by such Person in such corporation, association or other business entity equal to the Fair Market Value of the Capital Stock of such corporation, association or other business entity held by such Person immediately after the occurrence of such event, which shall be made in compliance with Condition 4(b) (Limitation on Restricted Payments).

"**Temporary Cash Investment**" means any of the following:

(1) direct obligations of the United States of America, any state of the European Economic Area, the United Kingdom, the PRC and Hong Kong or any agency of any of the foregoing or obligations fully and unconditionally guaranteed by the United States of America, any state of the European Economic Area, the United Kingdom, the PRC and Hong Kong or any agency of any of the foregoing, in each case maturing within one year, which in the case of obligations of, or obligations guaranteed by, any state of the European Economic Area, shall be rated at least "A" by S&P, Moody's or Fitch;

(2) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, any state of the European Economic Area, the United Kingdom, or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US$100 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Section 3(a)(62) under the Exchange Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;

(4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Issuer) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody's or "A-1" (or higher) according to S&P or Fitch;

(5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P, Moody's or Fitch;

(6) any money market fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above;

(7) demand or time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with any bank, trust company or other financial institution organized under the laws of the PRC or anywhere the Issuer or any Restricted Subsidiary conducts business operations; and

(8) structured deposit products that are principal protected with any bank or financial institution organized under the laws of the PRC or anywhere the Issuer or any Restricted Subsidiary conducts business operations if held to maturity (which shall not be more than one year) and can be withdrawn at any time with no more than six months' notice.

"**Total Assets**" means, as of any date, the total consolidated assets of the Issuer and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent fiscal quarter for which consolidated financial statements of the Issuer (which the Issuer shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements); *provided* that only with respect to clause (2)(f) of Condition 4(a) (Limitation on Indebtedness and Preferred Stock) and the definition of "Permitted Subsidiary Indebtedness," Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, in each case as of such date, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Issuer or any Restricted Subsidiary to the bank or other similar financial institutional lender providing such Indebtedness.

"**Trade Payables**" means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

"**Transaction Date**" means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

"**Trust Company Investor**" means an Independent Third Party that is a financial institution, including but not limited to a bank, a trust company, a securities management company, an asset management company, a fund management company, a financial management company or an insurance company, or an Affiliate thereof, that Invests in any Capital Stock of a Restricted Subsidiary.

"**Unrestricted Subsidiary**" means (1) any Subsidiary of the Issuer that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Trust Deed; and (2) any Subsidiary of an Unrestricted Subsidiary.

"**Voting Stock**" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

"**Wholly Owned**" means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director's qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Subsidiaries of such Person is entitled to 95% or more of the economic benefits distributable by such Subsidiary.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

*The Global Certificate contains provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the terms and conditions of the Bonds (the "**Conditions**" or the "**Terms and Conditions**") set out in this information memorandum. Terms defined in the Terms and Conditions of the Bonds have the same meaning in the paragraphs below. The following is a summary of those provisions:*

The Bonds will be represented by the Global Certificate which will be registered in the name of a nominee of, and deposited with, a common depositary on behalf of Euroclear and Clearstream.

Under the Global Certificate, the Issuer, for value received, promises to pay such principal and interest on the Bonds to the holder of the Bonds on such date or dates as the same may become payable in accordance with the Conditions.

Owners of interests in the Bonds in respect of which the Global Certificate is issued will be entitled to have title to the Bonds registered in their names and to receive individual definitive certificates if (a) an Event of Default (as described in Condition 9 in the Terms and Conditions) occurs in respect of any Bonds or (b) either Euroclear or Clearstream or any other clearing system (an "**Alternative Clearing System**") is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so. In such circumstances, the Issuer will cause sufficient individual definitive certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant holders of the Bonds.

Payment

So long as the Bonds are represented by the Global Certificate, each payment in respect of the Global Certificate will be made to, or to the order of, the person shown as the holder of the Bonds in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day immediately prior to the due date for such payments, where "Clearing System Business Day" means Monday to Friday, inclusive except 25 December and 1 January.

Trustee's Powers

In considering the interests of the Bondholders whilst the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, but without being obliged to do so, (a) have regard to any information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Bonds and (b) may consider such interests on the basis that such accountholders were the holder of the Bonds in respect of which such Global Certificate is issued.

Notices

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or any Alternative Clearing System, notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream or such Alternative Clearing System, for communication by it to the entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

Bondholder's Redemption

The Bondholder's redemption options in Condition 6(c) of the Terms and Conditions may be exercised by the holder of the Global Certificate giving notice to any Paying Agent of the principal amount of Bonds in respect of which the option is exercised within the time limits specified in the Terms and Conditions.

Issuer's Redemption

The option of the Issuer provided for in Condition 6(b) shall be exercised by the Issuer giving notice to the Bondholders within the time limits set out in and containing the information required by the Conditions of the Bonds.

Transfers

Transfers of interests in the Bonds will be effected through the records of Euroclear or Clearstream (or any Alternative Clearing System) and their respective participants in accordance with the rules and procedures of Euroclear or Clearstream (or any Alternative Clearing System) and their respective direct and indirect participants.

Cancellation

Cancellation of any Bond by the Issuer following its redemption or purchase by the Issuer or any of its Subsidiaries will be effected by reduction in the principal amount of the Bonds in the register of the Bondholders.

Meetings

For the purposes of any meeting of Bondholders, the holder of the Bonds represented by the Global Certificate shall (unless the Global Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and as being entitled to one vote in respect of each US$1,000 in principal amount of the Bonds for which this Global Certificate is issued.

TAXATION

The following summary of certain Bermuda, Hong Kong and PRC tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this information memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Bonds should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Bonds.

BERMUDA

Bermuda Taxation

Under current Bermuda legislation, there is no income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by us or any holders of the Bonds who are not ordinarily resident in Bermuda in respect of the Bonds. Further, no such tax is imposed by withholding or otherwise on any payment to be made to or made by us. Moreover, we have obtained from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act, 1966, an assurance that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 31, 2035 be applicable to us or to any of our operations or its shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or is payable by us in respect of real property owned or leased by us in Bermuda.

Stamp Duty

As an exempted company, we are exempt from all stamp duties except on transactions involving "Bermuda property". This term relates essentially to real and personal property physically situated in Bermuda, including shares in local (as opposed to exempted) companies. None of us or the holders of the Bonds, as the case may be (other than persons ordinarily resident in Bermuda), are subject to stamp duty on the issue or transfer of the Bonds.

HONG KONG

Withholding Tax

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Bonds) and interest in respect of the Bonds.

Profits Tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance") as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Bonds where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Bonds will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- a corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale, redemption or disposal of the Bonds where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue, redemption or transfer of the Bonds as the Bonds are not denominated in H.K. dollars and not redeemable in H.K. dollars.

PRC

Income Tax

Under the EIT Law and the Implementation Rules, both of which took effect on January 1, 2008, enterprises established outside the PRC whose "de facto management bodies" are located in China are considered as "PRC resident enterprises." The Implementation Rules define the term "de facto management body" as a management body that exercises full and substantial control and management over the business, production, personnel, accounts and properties of an enterprise.

The Company holds its shareholders' meeting and board meetings outside China and keeps its shareholders' list outside China. However, most of the Company's directors and senior management are currently based inside China and the Company keeps its books of account inside China. The above elements may be relevant for the tax authorities to determine whether the Company is a PRC resident enterprise for PRC tax purposes.

Although it is unclear under PRC tax law whether the Company has a "de facto management body" located in China for PRC tax purposes, the Company intends to take the position that it is not a PRC resident enterprise for PRC tax purposes. The Company cannot assure you that tax authorities will respect its position. As of the date of this information memorandum, we have not been notified or informed by the PRC tax authorities that we are considered as a PRC resident enterprise for the purpose of the EIT Law and its implementation regulations. If the Company is deemed to be a PRC resident enterprise for enterprise income tax purpose, among other things, the Company would be subject to the PRC enterprise income tax at the rate of 25% on its worldwide income excluding equity investment income such as dividend and bonus between the Company and its PRC subsidiaries if they are each deemed a qualified PRC resident enterprise. Furthermore, the Company would be obligated to withhold PRC income tax from payments of interest on the Bonds to investors that are non-resident enterprises or non-resident individuals, generally at the rate of 10% or 20% respectively (unless a lower rate is applicable), because the interest would be regarded as income derived from sources within the PRC. If the Company fails to do so, it may be subject to fines and other penalties. In addition, any gain realized by such non-resident enterprise investors from the transfer of the Bonds may be regarded as income derived from sources within the PRC and accordingly may be subject to PRC income tax at a rate of 10% (unless a lower rate is applicable).

Value Added Tax

On March 23, 2016, the MOF and the SAT issued the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知) (the "Circular 36") which confirms that business tax was replaced by value-added tax from May 1, 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, value added tax.

According to Circular 36 Notice, the entities and individuals providing the services within the PRC shall be subject to VAT. The services are treated as being provided within the PRC where either the service provider or the service recipient is located in the PRC. The services subject to value-added tax include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of Notes is likely to be treated as the holders of the Bonds providing loans to the Company, which thus shall be regarded as financial services subject to the value-added tax.

It is not clear from the interpretation of Circular 36 if the provision of loans to the Company could be considered services provided within the PRC, which could be regarded as the provision of financial services that could be subject to VAT. Furthermore, there is no assurance that the Company will not be treated as "resident enterprises" under the EIT Law. PRC tax authorities could take the view that the holders of the Bonds are providing loans within the PRC because the Company is treated as a PRC tax resident. In such case, the issuance of the Bonds could be regarded as the provision of financial services within the PRC that is subject to VAT.

If the Company is treated as a PRC tax resident and if PRC tax authorities take the view that the holders of the Bonds are providing loans within the PRC, the holders of the Bonds shall be subject to the value-added tax at the rate of 6% when receiving the interest payments under the Bonds. In addition, the holders of the Bonds shall be subject to the local levies at approximately 12% of the value-added tax payment and consequently, the combined rate of value-added tax and local levies would be around 6.72%. Given that the Company pays interest income to the holders of the Bonds who are located outside of the

PRC, the Company, acting as the obligatory withholder in accordance with applicable law, shall withhold the value-added tax and local levies from the payment of interest income to holders of the Bonds who are located outside of the PRC.

Where a holder of the Bonds who is an entity or individual located outside of the PRC resells the Bonds to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply and the Company does not have the obligation to withhold the value-added tax or the local levies. However, there is uncertainty as to the applicability of value-added tax if either the seller or buyer of Notes is located inside the PRC.

Given Circular 36 has been issued quite recently, the above statement may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. Accordingly, there is uncertainty as to the application of Circular 36.

Stamp Duty

No PRC stamp tax will be chargeable upon the issue or transfer of a Note (for so long as the register of holders of the Bonds is maintained outside the PRC and the issuance and the sale of the Bonds is made outside of the PRC).

SUBSCRIPTION AND SALE

We have engaged the Placing Agents to act as exclusive placing agents and not as principal for the issue of the Bonds to certain investors (the "**Issue**") under a Placing and Subscription Agreement (the "**Placing and Subscription Agreement**"). We acknowledge and agree that the engagement of the Placing Agents under the Placing and Subscription Agreement is not an agreement by either of the Placing Agent or any of its affiliates to underwrite, place or purchase any securities or otherwise provide any financing. Each of the Placing Agents, relying on the representations, warranties and covenants under the Placing and Subscription Agreement, agree to facilitate the subscription of the Bonds by the subscribers (the "**Subscribers**") at the Issue Price. Neither of the Placing Agents shall be under any obligation to purchase the Bonds if any of the Subscribers does not subscribe for any or all of the Bonds. For the avoidance of doubt, each Placing Agent will be responsible on a several (and not joint or joint and several) basis only for its own actions and omissions and will not be responsible in any manner for any actions or omissions of any other Placing Agent.

We acknowledge and agree that each of the Placing Agents has been engaged solely as independent contractor to provide the services set forth in the Placing and Subscription Agreement. In rendering such services each of the Placing Agents will be acting solely pursuant to a contractual relationship with us on an arm's length basis with respect to the Issue. We acknowledge that each of the Placing Agents shall not act as a financial advisor or a fiduciary to us or any other person. Additionally, we acknowledges that neither of the Placing Agents is advising us or any other person as to any legal, tax, investment, accounting or regulatory matters in any jurisdiction. We shall consult with our own advisers concerning such matters and shall be responsible for making our own independent investigation and appraisal of the transactions contemplated by the Placing and Subscription Agreement, and neither of the Placing Agents shall have responsibility or liability to us with respect thereto. We further acknowledge and agree that any review by the Placing Agents of matters relating to us, the Issue, the terms of the Bonds and other matters relating thereto will be performed solely for the benefit of the Placing Agents and shall not be performed on behalf of us or any other person. Finally, we agree that each of the Placing Agents may perform the services contemplated by the Subscription and Placing Agreement in conjunction with its affiliates, and that such affiliates performing services under the Subscription and Placing Agreement shall be entitled to the benefits and be subject to the terms of the Subscription and Placing Agreement.

TRANSFER RESTRICTIONS

Because of the following restrictions, we encourage you to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Bonds.

The Bonds are subject to restrictions on transfer as summarized below. By purchasing the Bonds, you will be deemed to have made the following acknowledgements, representations to, and agreements with, us:

1. You understand and acknowledge that:

    - the Bonds have not been registered under the U.S. Securities Act or any other applicable securities laws;

    - the Bonds are being offered for resale in transactions that do not require registration under the U.S. Securities Act or any other securities laws; and

    - the Bonds are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

2. You represent that you are not an affiliate (as defined in Rule 144 under the U.S. Securities Act) of ours, and you are purchasing the Bonds in an offshore transaction in accordance with Regulation S under the U.S. Securities Act.

3. You acknowledge that neither we nor any person representing us has made any representation to you with respect to us or the issuance of the Bonds, other than the information contained in this information memorandum. You represent that you are relying only on this information memorandum in making your investment decision with respect to the Bonds. You agree that you have had access to such financial and other information concerning us and the Bonds as you have deemed necessary in connection with your decision to purchase the Bonds including an opportunity to ask questions of and request information from us.

4. You represent that you are purchasing the Bonds for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Bonds in violation of the U.S. Securities Act.

5. You acknowledge that we and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the Acknowledgments, representations or agreements you are deemed to have made by your purchase of the Bonds is no longer accurate, you will promptly notify us. If you are purchasing any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

6. You also acknowledge that this information memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, you have represented, warranted and agreed that you have not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell the Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and have not circulated or distributed, nor will you circulate or distribute, this information memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

2) where no consideration is or will be given for the transfer;

3) where the transfer is by operation of law;

4) as specified in Section 276(7) of the SFA; or

5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

LEGAL MATTERS

Certain legal matters with respect to the Bonds will be passed upon for us by Sidley Austin as to matters of English law, Conyers Dill & Pearman as to matters of Bermuda law, and Jingtian & Gongcheng as to matters of PRC law.

INDEPENDENT ACCOUNTANTS

Our audited consolidated financial statements as of and for each of the three years ended December 31, 2015, 2016 and 2017 included in this information memorandum had been audited by BDO Limited Certified Public Accountants, as stated in their reports appearing herein, and in our annual reports for the years ended December 31, 2015, 2016 and 2017.

For the purpose of the offers and sales outside the United States in reliance on Regulation S, BDO Limited Certified Public Accountants has acknowledged the references to its name and the inclusion of its reports in the form and context in which they are respectively included in this information memorandum.

GENERAL INFORMATION

CONSENTS

We have obtained all necessary consents, approvals and authorizations in Bermuda and Hong Kong in connection with the issue and performance of the Bonds. The entering into of the Trust Deed governing the Bonds and the issue of the Bonds have been authorized by a resolution of our Board of Directors dated August 17, 2018.

LITIGATION

Except as disclosed in this information memorandum, there are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material in the context of this issue of the Bonds.

NO MATERIAL ADVERSE CHANGE

There has been no adverse change or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since December 31, 2017 that is material in the context of the issue of the Bonds.

DOCUMENTS AVAILABLE

For so long as any of the Bonds are outstanding, copies of the Trust Deed governing the Bonds may be inspected free of charge during normal business hours on any weekday (except public holidays) upon prior written notice and proof of holding at the registered office of the Trustee.

For so long as any of the Bonds are outstanding, copies of our audited financial statements for the past two fiscal years, if any, may be obtained during normal business hours on any weekday (except public holidays) upon prior written notice and proof of holding at the registered office of the Trustee.

The interim results announcement of the Company for the six months ended June 30, 2018 will become available on the website of The Stock Exchange of Hong Kong Limited on or about August 29, 2018.

CLEARING SYSTEM AND SETTLEMENT

The Bonds have been accepted for clearance through the facilities of Euroclear and Clearstream. Certain trading information with respect to the Bonds is set forth below:

	ISIN	Common Code
Global Certificate	XS1855419161	185541916

Only Bonds evidenced by a Global Certificate have been accepted for clearance through Euroclear and Clearstream.

LISTING OF THE BONDS

Approval in-principle has been received from the SGX-ST for the listing and quotation of the Bonds on the SGX-ST. Approval in-principle from, admission to the Official List of, and listing and quotation of the Bonds on, the SGX-ST are not to be taken as an indication of the merits of the Issuer, the subsidiaries or associated companies of the Issuer, or the Bonds. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Bonds, if traded on the SGX-ST, will be traded in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies). Accordingly, the Bonds, if traded on the SGX-ST, will be traded in a minimum board lot size of US$200,000.

For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a global certificate is exchanged for definitive certificates, we will appoint and maintain a paying agent in Singapore, where the definitive certificates may be presented or surrendered for payment or redemption. In addition, in the event that a global certificate is exchanged for definitive certificates, an announcement of such exchange will be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive certificates, including details of the paying agent in Singapore.

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AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF SKYFAME REALTY (HOLDINGS) LIMITED

(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Skyfame Realty (Holdings) Limited (the "**Company**") and its subsidiaries (together referred to as the "**Group**") set out on pages 73 to 165, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

Carrying value of properties held for development, properties under development and properties held for sale
The Group held several property projects and had entered into several arrangements during the year ended 31 December 2017 with a view to acquiring the underlying assets for property development.

The carrying amounts of the Group's properties held for development, properties under development and properties held for sale as at 31st December 2017 were RMB488 million, RMB3,552 million and RMB3,754 million respectively.

For the properties held for development and properties under development, management determined the net realisable value of the properties using the discounted cash flow forecast, which involved the use of estimates and assumptions including selling prices, construction costs and discount rate.

For the properties held for sale, management determined the net realisable value of the properties by the direct comparison approach, which involved the use of estimates and assumptions including recent sales price of similar properties with adjustments for any difference in nature, locality and condition of the properties.

Independent external valuations were obtained in order to support management's estimates. The valuations are dependent on certain key assumptions that require significant management judgement, including the costs of completion and fair market prices of similar nature. The valuations of these properties are also dependent upon the estimated costs to complete and expected developer's profit margin.

We have identified the carrying values of properties held for development, properties under development and properties held for sale as a key audit matter because of its significance to the consolidated financial statements.

Refer to note 22 and 23 in the consolidated financial statements.

How our audit addressed the key audit matter:
Our procedures in relation to management's valuation of these properties included:

- Reading the signed sales and purchase agreements to identify the rights and obligations of the Group and vendors;

- Discussing with the management and understanding the details of the properties development projects;

- Obtaining and reviewing the statutory records for transfer of shares of the vehicles holding the properties development projects;

INDEPENDENT AUDITOR'S REPORT

- Checking to payment advices and verifying the amounts paid;
- Assessing the appropriateness of the methodologies used by management for the assessments of the net realisable value of properties held for development, properties under development and properties held for sale;
- Evaluation of the independent external valuers' competence, capabilities and objectivity;
- Assessing the methodologies used by the valuer and the appropriateness of the key assumptions based on our knowledge of the property industry; and
- Checking, on a sample basis, the accuracy and relevance of the input data used.

Valuation of investment properties
Management estimated the fair value of the Group's investment properties to be RMB1,094 million at 31 December 2017, with a revaluation gain of RMB36 million and gain on properties valuation of RMB353 million for the year ended 31 December 2017 recorded in the consolidated statement of profit or loss. Independent external valuations were obtained for the investment properties in order to support management's estimates. The valuations are dependent on certain key assumptions that require significant management judgement, including capitalisation rates and fair market rents.

We identified valuation of investment properties as a key audit matter because of its significance to the consolidated financial statements.

Refer to note 17 in the consolidated financial statements.

How our audit addressed the key audit matter:
Our procedures in relation to management's valuation of investment properties included:

- Evaluation of the independent external valuers' competence, capabilities and objectivity;
- Assessing the methodologies used by the valuer and the appropriateness of the key assumptions based on our knowledge of the property industry; and
- Checking, on a sample basis, the accuracy and relevance of the input data used.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

DIRECTORS' RESPONSIBILITIES 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 HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

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 90 of Bermuda Act 1981, 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.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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.

BDO Limited
Certified Public Accountants
Chan Wing Fai
Practising Certificate no. P05443

Hong Kong, 26 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	7	**4,080,514**	1,507,971
Cost of sales and services		**(3,197,387)**	(1,196,640)
Gross profit		**883,127**	311,331
Other income and gains, net		**34,100**	4,048
Sales and marketing expenses		**(152,913)**	(106,971)
Administrative and other expenses		**(219,828)**	(163,597)
Unrealised exchange gains/(losses)		**111,909**	(97,231)
Fair value changes in investment properties	17	**35,701**	10,051
Gain on properties valuation		**353,351**	–
Fair value changes in derivative financial asset/liabilities		**13,080**	11,121
Loss on early repayment of term loans		**(23,418)**	–
Gain on disposal of subsidiaries		**–**	97,285
Finance costs	8	**(33,088)**	(3,051)
Finance income	8	**36,483**	32,771
Profit before income tax	9	**1,038,504**	95,757
Income tax expenses	13	**(491,232)**	(9,518)
PROFIT FOR THE YEAR		**547,272**	86,239
Other comprehensive income, items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on foreign operations		**2,827**	(138)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**550,099**	86,101
Profit for the year attributable to:			
– Owners of the Company	14	**550,460**	92,918
– Non-controlling interests		**(3,188)**	(6,679)
		547,272	86,239
Total comprehensive income for the year attributable to:			
– Owners of the Company		**553,287**	92,780
– Non-controlling interests		**(3,188)**	(6,679)
		550,099	86,101
Earnings per share	14		
– Basic		**RMB0.210**	RMB0.038
– Diluted		**RMB0.210**	RMB0.038

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	16	**239,497**	251,390
Investment properties	17	**1,094,400**	588,370
Goodwill	18	**13,554**	13,554
Available-for-sale investment	19	**10,000**	10,000
Loan to a non-controlling shareholder of a subsidiary	25	**52,900**	–
Derivative financial assets	33	**46,144**	9,022
Deferred tax assets	34	**18,142**	57,353
		1,474,637	929,689
Current assets			
Properties held for development	22	**488,072**	161,160
Properties under development	22	**3,552,378**	7,971,027
Properties held for sale	23	**3,754,243**	177,228
Considerations receivable	21	**–**	277,401
Loan to a non-controlling shareholder of a subsidiary	25	**–**	52,900
Trade and other receivables	26	**1,200,792**	862,037
Prepayments/deposits for proposed projects	27	**1,385,269**	614,093
Short-term investments	28	**100,000**	–
Prepaid income tax		**–**	93,368
Restricted and pledged deposits	29	**1,313,264**	987,290
Cash and cash equivalents	30	**2,983,799**	1,794,440
		14,777,817	12,990,944
Current liabilities			
Trade and other payables	31	**1,374,346**	1,190,525
Properties pre-sale deposits		**7,821,274**	7,290,196
Bank and other borrowings – current portion	33	**1,171,198**	1,067,634
Derivative financial liabilities – current portion	33	**–**	11,177
Income tax payable		**137,192**	–
		10,504,010	9,559,532
Net current assets		**4,273,807**	3,431,412
Total assets less current liabilities		**5,748,444**	4,361,101

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Non-current liabilities			
Bank and other borrowings – non-current portion	33	**3,104,096**	2,388,429
Derivative financial liabilities – non-current portion	33	**12,333**	2,182
Deferred tax liabilities	34	**253,388**	170,522
		3,369,817	2,561,133
Net assets		**2,378,627**	1,799,968
Capital and reserves			
Share capital	35	**24,469**	24,456
Reserves	36	**2,301,560**	1,740,653
Equity attributable to owners of the Company		**2,326,029**	1,765,109
Non-controlling interests		**52,598**	34,859
Total equity		**2,378,627**	1,799,968

On behalf of the Board

YU Pan
Director

WEN Xiaobing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

		Attributable to owners of the Company												
		Share capital	Share premium	Contributed surplus reserve	Share-based payment reserve	Property revaluation reserve	Merger reserve	Statutory reserves	Foreign exchange reserve	Other/ capital reserve	Retained profits	Sub-total	Non-controlling interests	Total
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016		21,068	1,507,182	16,116	10,576	34,499	(293,095)	6,471	(1,303)	743	201,683	1,503,940	5,065	1,509,005
Profit for the year		–	–	–	–	–	–	–	–	–	92,918	92,918	(6,679)	86,239
Other comprehensive expenses		–	–	–	–	–	–	–	(138)	–	–	(138)	–	(138)
Total comprehensive expenses for the year		–	–	–	–	–	–	–	(138)	–	92,918	92,780	(6,679)	86,101
Issue of shares:														
Share placing issue	*35(a)*	3,388	159,217	–	–	–	–	–	–	–	–	162,605	–	162,605
Share issue expenses		–	(3,812)	–	–	–	–	–	–	–	–	(3,812)	–	(3,812)
Transfer among reserves		–	–	–	–	(34,499)	–	–	–	–	34,499	–	–	–
Capital contribution		–	–	–	–	–	–	–	–	–	–	–	14,144	14,144
Disposals of subsidiaries	*38(c)*	–	–	–	–	–	–	–	–	–	–	–	22,329	22,329
Recognition of equity-settled share-based payment expenses	*37*	–	–	–	9,596	–	–	–	–	–	–	9,596	–	9,596
Reallocation of lapsed options from share-based payment reserve to retained profits		–	–	–	(994)	–	–	–	–	–	994	–	–	–
At 31 December 2016 and 1 January 2017		**24,456**	**1,662,587**	**16,116**	**19,178**	**–**	**(293,095)**	**6,471**	**(1,441)**	**743**	**330,094**	**1,765,109**	**34,859**	**1,799,968**
Profit for the year		–	–	–	–	–	–	–	–	–	550,460	550,460	(3,188)	547,272
Other comprehensive expenses		–	–	–	–	–	–	–	2,827	–	–	2,827	–	2,827
Total comprehensive expenses for the year		–	–	–	–	–	–	–	2,827	–	550,460	553,287	(3,188)	550,099
Issue of shares:														
Exercise of share options	*35(a)*	13	2,162	–	(727)	–	–	–	–	–	–	1,448	–	1,448
Capital contribution			–	–	–	–	–	–	–	–	–	–	25,529	25,529
Recognition of equity-settled share-based payment expenses	*37*	–	–	–	6,185	–	–	–	–	–	–	6,185	–	6,185
Dividend paid to non-controlling shareholder		–	–	–	–	–	–	–	–	–	–	–	(4,602)	(4,602)
At 31 December 2017		**24,469**	**1,664,749**	**16,116**	**24,636**	**–**	**(293,095)**	**6,471**	**1,386**	**743**	**880,554**	**2,326,029**	**52,598**	**2,378,627**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Net cash from operating activities	38(a)	**972,514**	378,383
Investing activities			
Interest received		**42,543**	27,437
Disposal of subsidiaries, net of cash disposed of	38(c)	**–**	125,159
Purchases of property, plant and equipment		**(9,273)**	(1,883)
Acquisition of available-for-sale investment		**–**	(10,000)
Acquisition of short-term investments		**(951,000)**	(760,000)
Disposal of short-term investments		**851,000**	1,220,000
Loan advanced to a non-controlling shareholder of a subsidiary		**–**	(32,500)
Increase in restricted and pledged deposits		**(325,974)**	(64,561)
Net cash (used in)/from investing activities		**(392,704)**	503,652
Financing activities	38(b)		
Proceeds from shares issued under share placing	35(a)	**–**	162,605
Proceeds from shares issued under share option scheme	35(a)	**1,448**	–
Expenses incurred on issue of shares		**–**	(3,812)
New bank and other borrowings		**5,158,509**	4,090,870
Repayment of bank and other borrowings		**(2,587,677)**	(2,612,688)
Other borrowing costs paid		**(106,819)**	(99,370)
Interest paid		**(1,879,589)**	(1,022,267)
Dividend paid to non-controlling shareholder		**(4,602)**	–
Capital contributions from non-controlling shareholders of subsidiaries		**25,529**	14,144
Net cash from financing activities		**606,799**	529,482
Net increase in cash and cash equivalents		**1,186,609**	1,411,517
Effect of exchange rate changes on cash and cash equivalents		**2,750**	(332)
Cash and cash equivalents at beginning of year		**1,794,440**	383,255
Cash and cash equivalents at end of year	30	**2,983,799**	1,794,440

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

Skyfame Realty (Holdings) Limited (the "**Company**") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Its (a) registered office, (b) head office and principal place of business in the People's Republic of China ("**PRC**"), and (c) principal place of business in Hong Kong are at (a) Clarendon House, 2 Church Street, Hamilton HM11, Bermuda; (b) 32nd to 33rd floors of HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, PRC and (c) Unit 1401, 14th Floor, Capital Centre, 151 Gloucester Road, Wanchai, Hong Kong, respectively.

The Company's parent is Grand Cosmos Holdings Limited ("**Grand Cosmos**") and the directors of the Company (the "**Directors**") consider its ultimate holding company is Sharp Bright International Limited ("**Sharp Bright**"). Grand Cosmos and Sharp Bright are both incorporated in the British Virgin Islands (the "**BVI**").

The Company and its subsidiaries are hereinafter collectively referred to as the "**Group**". The principal activity of the Company continues to be investment holding. Other than the operations in our youth community developments which currently do not bear operating results, assets or liabilities of significance to the Group, the principal activities of its subsidiaries are property development, property investment and property management.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKAS 40	Transfers of Investment Property
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 12, Disclosure of Interests in Other Entities

Amendments to HKAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has led to the additional disclosure presented in the notes to the cash flow statement, note 38(b).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(a) Adoption of new/revised HKFRSs (continued)

Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

The adoption of the amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

Amendments to HKAS 40 – Transfers of Investment Property

The new standard will be effective for annual periods beginning on or after 1 January 2018. The Group has early applied the new standard that has been issued but not yet effective.

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred. The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 12, Disclosure of Interests in Other Entities

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 12, Disclosure of Interests in Other Entities, to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The adoption of the amendments to HKFRS 12 has no impact on these financial statements as the latter treatment is consistent with the manner in which the Group has previously dealt with disclosures relating to its interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements have been issued but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards[1]
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures[1]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

HKFRS 9 – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at FVTOCI if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at FVTPL.

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (continued)

HKFRS 9 – Financial Instruments (continued)

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

During the year ended 31 December 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and summarised as follows:

(i) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets.

(ii) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade or other receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has expected that the provision for impairment will increase upon the initial adoption of the standard.

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (continued)

HKFRS 15 – Revenue from Contracts with Customers (continued)

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The Group principal activities consisted of property development, investment and management. During the year ended 31 December 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 15. The Group does not expect the adoption of HKFRS 15 will have a significant impact on the Group's financial performance and financial position.

However, the presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and may significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of most of these disclosure requirements will not be significant.

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (continued)

HK(IFRIC)-Int 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (continued)

Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

Amendments to HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except that the investment properties, available-for-sale investment and derivative financial asset/liabilities are stated at their fair values as explained in the accounting policies set out in note 4.

(c) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

(d) Functional and presentation currency

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is same as the functional currency of the Company and its principal subsidiaries.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Business combination and basis of consolidation (continued)

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRS. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Business combination and basis of consolidation (continued)

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Joint arrangements

The group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The group classifies its interests in joint arrangements as either:

– *Joint ventures*: where the group has rights to only the net assets of the joint arrangement; or

– *Joint operations*: where the group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

– The structure of the joint arrangement;

– The legal form of joint arrangements structured through a separate vehicle;

– The contractual terms of the joint arrangement agreement; and

– Any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goodwill

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("**CGUs**") that are expected to benefit from the synergies of the acquisition. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A CGU to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(e) Property, plant and equipment

The property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Leasehold land	12 to 38 years
Buildings	12 to 30 years
Furniture, fixtures and equipment	2 to 5 years
Motor vehicles	4 to 10 years

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment (continued)

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(f) Investment properties

Investment properties are properties held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

(g) Properties under development

Properties under development, including properties under Tianhe Project, are initially recognised at cost, and subsequently at the lower of cost and net realisable value. The cost of properties comprises land costs, development expenditure, professional fees and borrowing costs capitalised. Land costs include prepaid lease payments representing up-front payments to acquire long-term interests in lessee-occupied properties. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost represents the carrying amount of properties under development upon the completion of the construction of properties. Net realisable value represents the estimated selling price of properties sold in the ordinary course of business less estimated costs to be incurred in selling the properties.

(i) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor’s financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

(ii) Impairment loss on financial assets (continued)

For Loans and receivables investments

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Available-for-sale investments

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

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

(iii) Financial liabilities (continued)

Financial liabilities at fair value through profit or loss (continued)

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost, including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Hong Kong Companies Ordinance, Cap. 622, came into operation on 3 March 2014. Under the Ordinance shares of the Company do not have a nominal value. Consideration received or receivable for the issue of shares on or after 3 March 2014 is credited to share capital. Commissions and expenses are allowed to be deducted from share capital under s. 148 and s. 149 of the Ordinance.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Company measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

(vii) Derecognition

The Group derecognises a financial asset where the contractual rights to the future cash flows in relation to the financial asset expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged or cancelled or expires.

(k) Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in profit or loss up to the date of disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable from goods sold or services provided, net of discounts and sales related taxes as follows:

(i) Revenue from sale of properties is recognised when the risks and rewards of ownership of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed, the properties have been delivered to the purchasers pursuant to the sales agreement and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are presented as current liabilities in the statement of financial position.

(ii) Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.

(iii) Property management service income is recognised when services are provided.

(iv) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(m) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Income taxes (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(n) Foreign currency

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the "**functional currency**") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of the group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of profit or loss on disposal.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits

(i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution pension plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

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

(p) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share-based payment reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in the share-based payment reserve within equity is recognised. For cash-settled share-based payments, a liability is recognised at the fair value of the goods or services received.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- No longer exists or may have dec investment property under cost model;

- No longer exists or may have dec investment property under cost model;

- Investment in subsidiaries, associates and joint ventures (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of a non-financial asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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, the existence of which 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.

(s) Leasing

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

The Group as lessor

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Leasing (continued)

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expenses, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

(t) Related parties

(a) 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 key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(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 the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Related parties (continued)

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 and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

(u) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Key sources of estimation uncertainty are as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(a) Impairment of non-financial assets other than goodwill

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgement from management with respect to whether such an event has occurred.

Upon the occurrence of triggering events, the carrying amounts of non-financial assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus residual value of the asset on disposal. Where the recoverable amount of non-financial assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

The impairment assessment is performed based on the discounted cash flow analysis. This analysis relies on factors such as forecast of future performance and long-term growth rates and the selection of discount rates. If these forecast and assumptions prove to be inaccurate or circumstances change, further write-down or reversal of the write-down of the carrying value of the non-financial assets may be required.

(b) Income taxes and deferred taxes

The Group is subject to taxation in the PRC and Hong Kong. Significant judgement is required in determining the amount of the provision for taxation and the timing of the related payments. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will have impact on the income tax and/or deferred tax provisions in the period in which such determination is made.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(c) Land appreciation taxes

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

Those subsidiaries of the Company which are engaged in property development business in the PRC are subject to land appreciation taxes, which have been included in income tax expense in profit or loss. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its LAT returns with the relevant tax authorities in respect of certain property development projects. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expense and provision for land appreciation taxes in the period in which such determination is made.

(d) Provision for write-down in value of properties under development and properties held for sale

Management of the Group reviews the development budget and the estimation of net realisable value of the properties at the end of each reporting period, and makes provision for write-down in value, if any. These estimates are based on management's monitoring of the development progress, the current market conditions which may affect the cost to complete and/or the selling price, and the historical experience of selling the properties of similar nature. It could change as a result of changes in market conditions or internal factors of the Group. Such changes will have impact on the carrying amounts of the properties and the provision for write-down in value in the period in which such estimates have been changed. The Group reassesses these estimates at the end of each reporting period.

(e) Prepayments/Deposits for proposed projects

Management of the Group assesses the carrying amounts of prepayments/deposits for proposed projects according to their recoverable amounts based on the realisability of these property development projects, taking into account estimated net sales values based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(f) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

Critical judgments in applying accounting policies are as follows:

(a) Consideration from disposal of Tianhe Project

During the year ended 31 December 2016, the management makes judgement on whether the revenue recognition criteria under HKAS 18 Revenue in respect of the sale of the underlying assets and liabilities of the Tianhe Project have been fully satisfied, with reference to the terms of the agreement governing the sale transaction and the current circumstances of the performance of certain obligations of the Group. As fully satisfied the revenue recognition criteria, the related revenue and costs of the project are charged to profit or loss for the year. More details have been set out in note 34.

(b) Acquisition of projects

During the year ended 31 December 2016 and 2017, the Group had several acquisitions of projects. The management makes judgement on whether the Group has controls over the investees and the rights are substantive in accordance with HKFRS10. The Group consolidated the investees in the consolidated financial statements if control is existed. The Group classified the amounts paid as deposits if the Group did not obtain the control.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT REPORTING

In a manner consistent with the way in which information is reported internally for the purposes of resource allocation and performance assessment, other than the operations in the youth community developments which currently do not bear operating results, assets or liabilities of significance to the Group, the Group is operating in three principal operating divisions, i.e. property development, property investment and property management services. As management of the Group considers that nearly all consolidated revenue are attributable to the markets in the People's Republic of China (the "**PRC**") and consolidated non-current/current assets are substantially located in the PRC, no geographical information is presented. The Group's reportable segments are as follows:

Property development	–	Property development and sale of properties
Property investment	–	Property leasing
Property management	–	Provision of property management services

The Group's senior executive management monitors the results attributable to each reportable segment on the basis that revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses directly incurred by those segments. In addition to the segment performance in terms of segment results, management also provides other segment information concerning depreciation and amortisation, fair value changes in investment properties, gain from bargain purchase and write-down of properties under development/held for sale.

Segment assets/liabilities include all assets/liabilities attributable to those segments with the exception of short-term investments, cash and bank balances, unallocated bank and other borrowings, derivative financial assets/liabilities and taxes. Investment properties are included in segment assets but the related fair value changes in investment properties are excluded from segment results because the Group's senior executive management considers that they are not generated from operating activities.

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit that is used by the chief operating decision-maker for assessment of segment performance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT REPORTING (continued)

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance in the consolidated financial statements is set out below:

	Property development *RMB'000*	Property investment *RMB'000*	Property management *RMB'000*	Total *RMB'000*
Year ended 31 December 2017				
Segment revenue				
Reportable segment revenue	4,042,763	25,504	42,146	4,110,413
Elimination of intra-segment revenue	–	(7,895)	(22,004)	(29,899)
Consolidated revenue from external customers	4,042,763	17,609	20,142	4,080,514
Segment results	655,580	6,767	(23,332)	639,015
Reconciliation:				
Unallocated other revenue				17,380
				656,395
Fair value changes in investment properties	–	35,701	–	35,701
Gain on properties valuation	–	353,351	–	353,351
Loss on early repayment of term loans				(23,418)
Fair value changes in derivative financial asset/liabilities				13,080
Finance costs				(33,088)
Finance income				36,483
Consolidated profit before income tax				1,038,504
Other segment information:				
Depreciation and amortisation	(1,786)	(768)	(1,777)	(4,331)
Additions to properties held for/ under development	2,505,692	–	–	2,505,692
Capital expenditure	3,476	–	340	3,816
As at 31 December 2017				
Assets and liabilities				
Assets				
Reportable segment assets	10,427,908	1,850,264	40,556	12,318,728
Reconciliation:				
Derivative financial assets				46,144
Available-for-sale investment				10,000
Short-term investments				100,000
Deferred tax assets				18,142
Cash and cash equivalents				2,983,799
Unallocated restricted and pledged deposits				456,511
Unallocated corporate assets				
– Leasehold land and building				190,409
– Other corporate assets				128,721
Consolidated total assets				16,252,454
Liabilities				
Reportable segment liabilities	10,913,563	64,145	19,434	10,997,142
Reconciliation:				
Income tax payable				137,192
Deferred tax liabilities				253,388
Derivative financial liabilities				12,333
Unallocated bank and other borrowings				2,463,795
Unallocated corporate liabilities				9,977
Consolidated total liabilities				13,873,827

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT REPORTING (continued)

	Property development *RMB'000*	Property investment *RMB'000*	Property management *RMB'000*	Total *RMB'000*
Year ended 31 December 2016				
Segment revenue				
Reportable segment revenue	1,471,330	24,549	32,863	1,528,742
Elimination of intra-segment revenue	–	(8,035)	(12,736)	(20,771)
Consolidated revenue from external customers	1,471,330	16,514	20,127	1,507,971
Segment results	(214,367)	7,800	(12,809)	(219,376)
Reconciliation:				
Unallocated other revenue				166,956
				(52,420)
Fair value changes in investment properties	–	10,051	–	10,051
Gain on disposal of subsidiaries	97,285	–	–	97,285
Fair value changes in derivative financial asset/liabilities				11,121
Finance costs				(3,051)
Finance income				32,771
Consolidated profit before income tax				95,757
Other segment information:				
Depreciation and amortisation	(1,592)	(805)	(1,747)	(4,144)
Impairment loss on trade and other receivables	–	(11)	(156)	(167)
Additions to properties under Tianhe project	37,495	–	–	37,495
Additions to properties held for/under development	2,298,694	–	–	2,298,694
Capital expenditure	1,708	–	153	1,861
As at 31 December 2016				
Assets and liabilities				
Assets				
Reportable segment assets	9,927,387	1,283,999	41,697	11,253,083
Reconciliation:				
Derivative financial assets				9,022
Available-for-sale investment				10,000
Prepaid income tax				93,368
Deferred tax assets				57,353
Cash and cash equivalents				1,794,440
Unallocated restricted and pledged deposits				375,382
Unallocated corporate assets				
– Leasehold land and building				205,778
– Other corporate assets				122,207
Consolidated total assets				13,920,633
Liabilities				
Reportable segment liabilities	9,670,023	12,733	12,273	9,695,029
Reconciliation:				
Deferred tax liabilities				170,522
Derivative financial liabilities				13,359
Unallocated bank and other borrowings				2,232,665
Unallocated corporate liabilities				9,090
Consolidated total liabilities				12,120,665

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT REPORTING (continued)

Information about major customers

Revenue from customers contributing over 10% of total revenue of the Group is as follows:

	2017	2016
	RMB'000	*RMB'000*
HNA Hotel *(Note)*	–	1,115,557

Note: Revenue from sale of properties in Tianhe Project

None of the customers of the Group contributed more than 10% of the Group's revenue for the year ended 31 December 2017.

7. REVENUE

Revenue represents the amounts arising on sales of properties, rental income from the operating leases of investment properties and provision of property management services. The amounts of each significant category of revenue recognised during the year are as follows:

	2017	2016
	RMB'000	*RMB'000*
Sale of properties	**4,042,763**	1,471,268
Rental income	**17,609**	16,576
Property management services	**20,142**	20,127
	4,080,514	1,507,971

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

8. FINANCE COSTS AND INCOME

	2017	2016
	RMB'000	*RMB'000*
Finance costs:		
Interest on bank and other borrowings	**314,888**	203,207
Less: Amount capitalised as properties under development		
Interest on bank and other borrowings	**(281,822)**	(200,169)
	33,066	3,038
Other borrowing costs	**17,725**	14,041
Less: Amount capitalised as properties under development	**(17,703)**	(14,028)
	22	13
Finance costs charged to profit or loss	**33,088**	3,051
Finance income:		
Bank interest income	**24,953**	24,876
Interest income on short-term investments	**8,884**	6,325
Interest income on loan to a non-controlling shareholder of a subsidiary	**2,646**	1,570
Finance income credited to profit or loss	**36,483**	32,771

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 8.4% (2016: 9.0%), which is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the year, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

9. PROFIT BEFORE INCOME TAX

Profit before income tax for the year has been arrived at after charging/(crediting):

	Notes	2017 RMB'000	2016 RMB'000
Cost of properties sold		**3,054,029**	1,186,772
Write-down of properties under development/ properties held for sale		**131,299**	–
Cost of inventories recognised in profit or loss		**3,185,328**	1,186,772
Staff costs, including directors' emoluments	*10*	**132,701**	102,344
Auditor's remuneration			
– current year		**1,206**	1,382
– non-audit services		**–**	548
Depreciation of property, plant and equipment	*16*	**13,460**	13,731
Less: Amount capitalised as properties under development	*22*	**(127)**	(139)
Depreciation charged to profit or loss		**13,333**	13,592
Amortisation of leasehold land	*16*	**3,407**	3,407
Depreciation and amortisation charged to profit or loss		**16,740**	16,999
Minimum lease payments under operating lease in respect of:			
– rented other premises		**1,136**	320
Unrealised exchange (gain)/loss		**(111,909)**	97,231
Impairment loss on trade and other receivables		**–**	167
Direct operating expenses arising from investment properties that generated rental income		**2,630**	2,475
Direct operating expenses arising from investment properties that did not generate rental income		**48**	234

10. STAFF COSTS

	2017 RMB'000	2016 RMB'000
Staff costs (including directors' emoluments) comprise:		
Basic salaries and other benefits	**105,444**	95,815
Bonuses	**62,281**	46,423
Equity-settled share-based payment expenses	**6,185**	9,596
Contributions to defined contribution pension plans	**6,165**	5,262
	180,075	157,096
Less: Amount capitalised as properties under development	**(47,374)**	(54,752)
Staff costs charged to profit or loss	**132,701**	102,344

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

11. DIRECTORS' EMOLUMENTS

The aggregate amounts of the directors' emoluments disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance (Cap. 622) (the Ordinance) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) (the Regulation) are as follows:

	Fees	Salaries and other benefits	Bonuses	Equity-settled share-based payment expenses	Contributions to defined contribution pension plan	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(note (a))	*(note (b))*			
2017						
Executive directors						
YU Pan	**–**	**2,228**	**691**	**–**	**16**	**2,935**
WEN Xiaobing	**104**	**1,747**	**913**	**809**	**73**	**3,646**
WONG Lok	**–**	**231**	**–**	**–**	**11**	**242**
JIANG Jing (resigned on 25 April 2017)	**35**	**238**	**–**	**–**	**23**	**296**
Non-executive director						
LI Weijing (appointed on 7 August 2017)	**–**	**–**	**–**	**–**	**–**	**–**
ZHONG Guoxing (resigned on 20 July 2017)	**–**	**–**	**–**	**–**	**–**	**–**
Independent non-executive directors						
CHOY Shu Kwan	**209**	**–**	**–**	**52**	**–**	**261**
CHENG Wing Keung, Raymond	**209**	**–**	**–**	**52**	**–**	**261**
CHUNG Lai Fong	**209**	**–**	**–**	**52**	**–**	**261**
	766	**4,444**	**1,604**	**965**	**123**	**7,902**
2016						
Executive directors						
YU Pan	–	2,104	795	–	15	2,914
WEN Xiaobing	102	1,747	691	1,164	68	3,772
WONG Lok	–	226	–	–	11	237
JIANG Jing	102	755	63	–	68	988
Non-executive director						
ZHONG Guoxing	–	–	–	–	–	–
Independent non-executive directors						
CHOY Shu Kwan	205	–	–	133	–	338
CHENG Wing Keung, Raymond	205	–	–	133	–	338
CHUNG Lai Fong	205	–	–	133	–	338
	819	4,832	1,549	1,563	162	8,925

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

11. DIRECTORS' EMOLUMENTS (continued)

Comparative information has been prepared with reference to the provisions in the Ordinance and the Regulation. Certain information has been restated due to the requirements in the Ordinance and the Regulation are not the same as the Hong Kong Companies Ordinance, Cap.32.

Notes:

(a) Salaries and other benefits included basic salaries, housing and other allowances and benefits-in-kind.

(b) Bonuses were not contractual but were discretionarily provided based on the Directors' performance. The amounts of entitlement were subject to approval by the Remuneration Committee of the Company.

(c) Mr. WEN Xiaobing acted as chief executive of Guangzhou head office and his emoluments for the year are not included in note 12 below.

(d) Equity-settled share-based payment represents the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share option is estimated according to the accounting policies for share-based payments as set out in Note 37 to the financial statements. Further details of the options granted are set out in Note 37.

There was no arrangement under which a Director has waived or agreed to waive any emoluments during the current and prior years.

12. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group during the year, one (2016: two) is/are Director whose emoluments is/are included in note 11 above. The emoluments of the remaining four (2016: three) are as follows:

	2017	2016
	RMB'000	*RMB'000*
Basic salaries and other benefits	**6,306**	4,412
Bonuses	**9,610**	2,966
Equity-settled share-based payment expenses	**2,137**	3,326
Contributions to defined contribution pension plans	**233**	152
	18,286	10,856

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

12. FIVE HIGHEST PAID INDIVIDUALS (continued)

Their emoluments are within the following bands:

	Number of individuals	
	2017	2016
RMB2,926,001 to RMB3,344,000 (equivalent to HK$3,500,001 to HK$4,000,000)	**1**	1
RMB3,344,001 to RMB3,762,000 (equivalent to HK$4,000,001 to HK$4,500,000)	**–**	2
RMB4,180,000 to RMB4,597,000 (equivalent to HK$5,000,001 to HK$5,500,000)	**1**	–
RMB5,015,001 to RMB5,433,000 (equivalent to HK$6,000,001 to HK$6,500,000)	**2**	–

The emoluments paid or payable to members of senior management (excluding the directors as disclosed in note 11) are within the following bands:

	Number of senior management	
	2017	2016
RMBNil to RMB836,000 (equivalent to HK$Nil to HK$1,000,000)	**–**	1
RMB836,001 to RMB1,254,000 (equivalent to HK$1,000,001 to HK$1,500,000)	**–**	1
RMB1,254,001 to RMB1,672,000 (equivalent to HK$1,500,001 to HK$2,000,000)	**2**	2
RMB2,090,001 to RMB2,508,000 (equivalent to HK$2,500,001 to HK$3,000,000)	**–**	1
RMB2,926,001 to RMB3,344,000 (equivalent to HK$3,500,001 to HK$4,000,000)	**2**	1
RMB3,344,001 to RMB3,762,000 (equivalent to HK$4,000,001 to HK$4,500,000)	**–**	2
RMB4,180,001 to RMB4,597,000 (equivalent to HK$5,000,001 to HK$5,500,000)	**1**	–
RMB5,015,001 to RMB5,433,000 (equivalent to HK$6,000,001 to HK$6,500,000)	**1**	–
RMB5,433,001 to RMB5,851,000 (equivalent to HK$6,500,001 to HK$7,000,000)	**1**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

13. INCOME TAX EXPENSE

The amount of taxation in the consolidated statement of comprehensive income represents:

	2017	2016
	RMB'000	*RMB'000*
Current tax		
Hong Kong profits tax	–	–
PRC corporate tax		
– current year	**198,341**	60,228
PRC LAT		
– current year	**170,814**	4,902
	369,155	65,130
Deferred tax		
PRC corporate tax		
– current year	**122,077**	(55,612)
Total income tax expenses	**491,232**	9,518

No provision for Hong Kong profits tax has been made for the year ended 31 December 2017 (2016: Nil) as the Group has no estimated assessable profits in respect of operation in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% (2016: 16.5%) for the year.

Enterprise income tax arising from other regions of the PRC is calculated at 25% (2016: 25%) of the estimated assessable profits and withholding tax on dividend declared by a PRC subsidiary.

The provision of PRC LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided, as appropriate, at ranges of progressive rates from 30% to 60% on the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditure.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

13. INCOME TAX EXPENSE (continued)

The income tax expense for the year can be reconciled to the profit before income tax per the consolidated statement of profit or loss as follows:

	2017 *RMB'000*	2016 *RMB'000*
Profit before income tax	**1,038,504**	95,757
Tax calculated at the applicable income tax rate of 25% (2016: 25%)	**259,626**	23,939
Effect of different tax rates of entities operating in other jurisdictions	**10,309**	8,212
Tax effect of expenses not deductible for tax purposes	**107,536**	219,514
Tax effect of revenue not subject to tax	**(10,214)**	(277,515)
Tax effect of gain on disposal of a subsidiary	**–**	(24,321)
Tax effect of tax losses not recognised	**(41,857)**	43,900
Tax effect of LAT	**104,233**	4,902
Tax effect on withholding tax arising on undistributed profits of the PRC subsidiaries	**39,975**	–
Under-provision in respect of prior years	**3,650**	2,897
Tax effect of other temporary differences not recognised	**18,455**	8,776
Others	**(481)**	(786)
Income tax expense	**491,232**	9,518

14. EARNINGS PER SHARE

The calculation of basic earnings per share amounts for the years ended 31 December 2017 and 2016 is based on the profit for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue and participating equity instruments during the years.

The calculation of the diluted earnings per share amounts for the years ended 31 December 2017 and 2016 is based on the profit for the year attributable to equity holders of the Company and the weighted average number of ordinary shares after adjustment for the effect if deemed exercise of all dilutive potential ordinary shares at no consideration at the beginning of the periods.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share option (2015 Scheme) (note 37(a)) as the exercise price of those options is higher than the average market price for shares for the year ended 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

14. EARNINGS PER SHARE (continued)

The effect of the outstanding convertible bonds (note 33) was not included in the computation of diluted earnings per share for the years ended 31 December 2017 and 2016 as it was anti-dilutive.

	2017	2016
	RMB'000	*RMB'000*
Profit for the purposes of basic and diluted earnings per share	**550,460**	92,918
	Number of shares	
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings per share	**2,616,535**	2,444,946
Effect of dilutive potential ordinary shares from share options (2005 Scheme) (note 37)	**5,247**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**2,621,782**	2,444,946
Basic	**RMB0.210**	RMB0.038
Diluted	**RMB0.210**	RMB0.038

15. DIVIDENDS

	2017	2016
	RMB'000	*RMB'000*
Final dividend proposed after the end of the year of HK$0.04 (approximately RMB0.03) per ordinary share (2016: Nil)	**78,543**	–

At the meeting held on 26 March 2018, the directors proposed a final dividend of HK$0.04 (approximately RMB0.03) (2016: Nil) per ordinary share of the Company for the year ended 31 December 2017. This proposed final dividend, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting, is not reflected as a dividend payable in the consolidated financial statements for the year ended 31 December 2017, but will be reflected as an appropriation for the year ending 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost				
At 1 January 2016	273,757	12,436	9,522	295,715
Additions	–	1,112	771	1,883
Disposal of subsidiaries	–	(486)	(866)	(1,352)
Written off/disposals	–	(29)	–	(29)
Exchange differences	5,325	282	155	5,762
At 31 December 2016 and at 1 January 2017	**279,082**	**13,315**	**9,582**	**301,979**
Additions	**–**	**6,759**	**2,514**	**9,273**
Written off/disposals	**–**	**(33)**	**–**	**(33)**
Exchange differences	**(5,504)**	**(292)**	**(251)**	**(6,047)**
At 31 December 2017	**273,578**	**19,749**	**11,845**	**305,172**
Accumulated depreciation				
At 1 January 2016	22,309	5,788	4,893	32,990
Disposal of subsidiaries	–	(377)	(363)	(740)
Depreciation for the year	9,395	2,677	1,659	13,731
Amortisation for the year	3,407	–	–	3,407
Written off/disposals	–	(29)	–	(29)
Exchange differences	977	146	107	1,230
At 31 December 2016 and at 1 January 2017	**36,088**	**8,205**	**6,296**	**50,589**
Depreciation for the year	**9,458**	**2,476**	**1,526**	**13,460**
Amortisation for the year	**3,407**	**–**	**–**	**3,407**
Written off/disposals	**–**	**(33)**	**–**	**(33)**
Exchange differences	**(1,403)**	**(197)**	**(148)**	**(1,748)**
At 31 December 2017	**47,550**	**10,451**	**7,674**	**65,675**
Net book value				
At 31 December 2017	**226,028**	**9,298**	**4,171**	**239,497**
At 31 December 2016	242,994	5,110	3,286	251,390

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

17. INVESTMENT PROPERTIES

	2017 *RMB'000*	2016 *RMB'000*
At beginning of year	**588,370**	570,058
Transfer from properties held for sale	**125,649**	–
Gain on valuations	**353,351**	–
Changes in fair value	**35,701**	10,051
Exchange differences	**(8,671)**	8,261
At end of year	**1,094,400**	588,370

Details of assessment of the fair value are set out in Note 24.

18. GOODWILL

	2017 *RMB'000*	2016 *RMB'000*
Cost		
At beginning of year	**68,664**	68,664
At end of year	**68,664**	68,664
Accumulated impairment loss		
At beginning of year	**55,110**	55,110
At end of year	**55,110**	55,110
Net book value		
At end of year	**13,554**	13,554

Goodwill acquired through business combinations has been allocated to the following CGU, namely property development, for impairment testing:

Project	Attributable CGU	2017 *RMB'000*	2016 *RMB'000*
Zhoutouzui Project	Property development *(Note)*	**13,554**	13,554

Note: Zhoutouzui Project refers to the development project located at Zhoutouzui, Haizhu District, Guangzhou, the PRC. The Group acquired 51% interest in the Zhoutouzui Project in 2006 and further increased its interest to 100% through a step-up acquisition in 2007. The carrying amount of property development costs in relation to the properties being under construction in Zhoutouzui Project is included in properties under development and properties held for sale (as disclosed in note 22 and 23).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

18. GOODWILL (continued)

Impairment test for goodwill

The goodwill relates to the CGU within the operational segment of property development. The recoverable amount of the CGU is determined using value-in-use calculation. This calculation uses cash flow projection based on financial budget of this CGU which is approved by management covering a five-year period with key assumptions including revenue, direct costs and other operating expenses being referenced to past performance and management's reasonable expectations on the business outlook of this CGU.

Key assumptions are as follows:

CGU	Discount rate	Pre-tax operating margin
2017		
Property development	**8.55%**	**48.75%**
2016		
Property development	8.00%	51.20%

Discount rate is based on the Group's management's assessment of specific risks related to the CGU. Operating margin is based on the management's perception of the market outlook.

No impairment loss is provided for the year ended 31 December 2017 (2016: Nil). The Directors performed an impairment test for the goodwill and concluded that the CGU of property development in relation to the Zhoutouzui Project demonstrates sufficient cashflow projection that justifies the carrying value of the goodwill. Hence, the management did not consider impairment of goodwill necessary.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

19. AVAILABLE-FOR-SALE INVESTMENT

	2017 RMB'000	2016 RMB'000
Investment funds, at fair value	**10,000**	10,000

The available-for-sale investment is denominated in RMB and there is no public market for the investments. The fair value is based on net asset value of the investment funds at the end of the reporting period. During the year ended 31 December 2017, no change in fair value was recognised in other comprehensive income and to be accumulated in the investment revaluation reserve.

20. JOINT ARRANGEMENT

廣州市譽城房地產開發有限公司 (Guangzhou Yucheng Real Estate Development Company Limited)* ("**GZ Yucheng**"), a sino-foreign cooperative company with limited liabilities established in the PRC by Guangzhou Zhoutouzui Development Limited ("**GZ Zhoutouzui**"), a wholly-owned indirect subsidiary of the Company, and is accounted for as a joint operation in the Group's financial statements. The Group's accounts for its share of assets, liabilities and profit or loss in relation to the joint operation in accordance with the policy are set out in note 4(c). Details of GZ Yucheng are as follows:

Place and date of establishment	Registered capital	Paid-up capital	Principal activity
PRC, 31 March 2003	US$100,000,000	US$100,000,000 (approximately RMB656,641,000)	Property development in the PRC

Under the terms of the agreement entered into by the parties, (i) GZ Zhoutouzui is obligated for the investment of 100% of the capital of and provided financial support to GZ Yucheng; and (ii) another party, 廣州港集團有限公司 (Guangzhou Port Group Co., Limited) ("**Port Authority**"), is entitled to 28% of the total gross floor area of the project upon completion of the development (being agreed to be the entire block of Tower A4 and certain residential units in Tower A5) and after then, Port Authority will not be entitled to any profit or loss generated by GZ Yucheng; and (iii) GZ Zhoutouzui is entitled to 72% of the total gross floor area of the project upon completion of the proposed development and the entire profit or loss to be generated or incurred by GZ Yucheng. GZ Zhoutouzui is also entitled to all assets other than the 28% properties to be allocated to Port Authority, and obliged to bear all the liabilities of GZ Yucheng under the arrangement.

In December 2017, Port Authority acknowledged the transfer of the rights of use of these property units in Tower A4 and delegated GZ Yucheng to sell the residential units in Tower A5.

* *English name for identification purpose only*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

21. CONSIDERATIONS RECEIVABLE

a. Disposal of Tianhe Project

	Gross consideration *RMB'000*	(Settled)/Paid *RMB'000*	**2017** ***RMB'000***	2016 *RMB'000*
Gross sale consideration for the equity interest and net assets of subsidiary disposed	1,128,273	(1,128,273)	–	140,000
Less: Development costs and finance costs borne by the Group	(20,000)	20,000	–	–
Amortised cost, amount due within one year	1,108,273	(1,108,273)	–	140,000

The receivable relates to the sale consideration receivable from the purchaser for the disposal of the equity interest in a subsidiary which is engaged in the development of Tianhe Project. The amount of approximately RMB140,000,000 represents the final instalment that is unsecured and interest-free and was fully settled in January 2017.

b. Disposal of Yongzhou Project

	Gross consideration *RMB'000*	(Settled)/Paid *RMB'000*	**2017** ***RMB'000***	2016 *RMB'000*
Gross sale consideration for the equity interest and net assets of Yongzhou Real Estate	277,223	(277,223)	–	137,401
Amortised cost, amount due within one year	277,223	(277,223)	–	137,401

The receivable relates to the final instalment receivable from the purchaser, 廣州市天譽房地產開發有限公司 (Guangzhou Tianyu Real Estate Development Company Limited)*, for the disposal of the 70% equity interest in 永州市天譽房地產開發有限公司 (Yongzhou Tianyu Real Estate Development Company Limited)* (“**Yongzhou Real Estate**”), the developer of Yongzhou Project, that is unsecured and interest-free. The final instalment was fully settled in January 2017.

* *English name for identification purpose only*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

22. PROPERTIES HELD FOR/UNDER DEVELOPMENT

Properties held for/under development in the PRC are as follows:

	2017	2016
	RMB'000	*RMB'000*
Land use rights *(Note)*	**1,734,123**	2,205,151
Premium paid for the acquisition of the interest of the land, demolition and settlement costs	**170,403**	649,883
Construction costs	**1,770,152**	4,214,393
Others	**392,923**	1,062,760
	4,067,601	8,132,187
Less: Accumulated write-down in value	**(27,151)**	–
	4,040,450	8,132,187
Representing:		
Properties held for development	**488,072**	161,160
Properties under development	**3,552,378**	7,971,027
	4,040,450	8,132,187

Note:

Land use rights comprise cost of acquiring rights to use of lands located in the PRC for property development.

The following table reconciles the movement of the carrying amount of properties held for/under development during the year:

	2017	2016
	RMB'000	*RMB'000*
At beginning of year	**8,132,187**	6,159,277
Additions		
– Capitalisation of depreciation of property, plant and equipment	**127**	139
– Capitalisation of finance costs	**295,539**	214,197
– Land and other development costs	**2,500,590**	2,298,695
	2,796,256	2,513,031
Completed properties transferred to properties held for sale	**(6,860,842)**	(540,121)
Write down of properties under development	**(27,151)**	–
At end of year	**4,040,450**	8,132,187

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

23. PROPERTIES HELD FOR SALE

	2017 RMB'000	2016 RMB'000
Completed properties held for sale	**3,984,040**	177,228
Less: Transfer to investments properties	**(125,649)**	–
Less: Write-down of properties held for sale	**(104,148)**	–
	3,754,243	177,228

All completed properties held for sale as at 31 December 2017 were located in the PRC.

Note:

Write down of the carrying values of RMB104,148,000 in respect of properties held for sale in Nanning Skyfame Garden Project to pre-agreed prices as contracted with local government for properties purchased by government for the resettlement of original occupants of the project site and residents in shanty dwellings nearby the project.

24. ANALYSIS OF PROPERTIES

(a) The analysis of the net book values of properties held for sale, leasehold land and building for self-use and fair value of investment properties is as follows:

	2017 RMB'000	2016 RMB'000
Land lease in the PRC and Hong Kong		
– Investment properties	**1,094,400**	588,370
– Leasehold land and building	**226,028**	242,994
– Properties held for sale	**3,754,243**	177,228
	5,074,671	1,008,592

(b) The Group's properties held for sale, investment properties and leasehold land and building were revalued as at 31 December 2017 and 31 December 2016. The valuations were carried out by Cushman & Wakefield International Properties Advisers (Guangzhou) Co., Ltd. and RHL Appraisal Limited, independent valuers who hold recognised and relevant professional qualifications and have relevant experience in the location and category of the completed properties being valued. The Group's management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each reporting date.

(c) The Group's investment properties and leasehold land and building with carrying amounts as disclosed in note 43 are pledged to secure bank borrowings of the Group, as disclosed in note 33(a), at the end of the reporting period.

(d) For the year ended 31 December 2017, the rental income from investment properties amounted to RMB17,609,000 (2016: RMB16,514,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

24. ANALYSIS OF PROPERTIES (continued)

(e) Fair value

The following table gives information about how the fair values of investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Nature	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
2017				
Investment properties in Hong Kong	Level 2	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property.	N/A	N/A
Investment properties in the PRC	Level 3	Income capitalisation approach The key inputs are: (1) Capitalisation rate; (2) Daily unit rent	(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.75%.	The higher the capitalisation rate, the lower the fair value.
			(b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB417 sq.m./day for the base level.	The higher the daily unit rent, the higher the fair value.
2016				
Investment properties in Hong Kong	Level 2	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property.	N/A	N/A
Investment properties in the PRC	Level 3	Income capitalisation approach The key inputs are: (1) Capitalisation rate; (2) Daily unit rent	(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.75%.	The higher the capitalisation rate, the lower the fair value.
			(b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB416/sq.m./day for the base level.	The higher the daily unit rent, the higher the fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

24. ANALYSIS OF PROPERTIES (continued)

(e) Fair value (continued)

The fair value of investment properties in the PRC as at 31 December 2017 and 31 December 2016 were measured using valuation techniques with significant unobservable inputs and hence were classified as Level 3 of the fair value hierarchy.

Fair value measurements and valuation processes

In estimating the fair value of the Group's investment properties, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation of the Group's investment properties. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. The Group will first consider and adopt Level 2 inputs where inputs can be derived observable quoted prices in the active market. When Level 2 inputs are not available, the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the board of Directors of the Company.

The movements during the year in the balance of Level 3 fair value measurements are as follows:

	2017	2016
	RMB'000	*RMB'000*
Opening balance (level 3 recurring fair value)	**456,000**	448,000
Transfer from properties held for sale	**125,649**	–
Gains: included in other gains	**366,351**	8,000
Closing balance (level 3 recurring fair value)	**948,000**	456,000

25. LOAN TO NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

As at 31 December 2017, the balance is unsecured, interest bearing at floating rate referenced to 110% of the 1-year lending rate as quoted by the People's Bank of China and repayable in 2019 (2016: repayable in 2017).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

26. TRADE AND OTHER RECEIVABLES

	Notes	2017 RMB'000	2016 RMB'000
Current or less than 1 month		**1,370**	588
1 to 3 months		**380**	1,741
More than 3 months but less than 12 months		**542**	629
More than 1 year		**539**	387
Trade receivables from tenants and property occupants, net of impairment	(a), (b)	**2,831**	3,345
Refundable earnest money or payments made in project acquisitions		–	12,270
Receivable from district government for resettlement housing in a project		**52,272**	52,272
Sale proceeds kept by a monitoring governmental body		**195,910**	–
Unpaid up capital to be contributed by a non-controlling shareholder of a subsidiary		**38,689**	13,800
Refundable construction costs		**60,697**	57,730
Tender deposit in development project		**20,800**	20,800
Prepaid construction costs		**204,571**	240,032
Prepaid finance costs		**7,638**	9,750
Prepaid business taxes and surcharges		**315,918**	280,866
Maintenance funds paid on behalf of properties owners		**46,616**	45,943
Interest receivable on bank deposits/short-term investments		–	8,706
Other deposits, prepayments and other receivables	(b)	**254,850**	116,523
		1,200,792	862,037

Notes:

(a) The Group has a policy of allowing an average credit period of 8 to 30 days to its trade customers. The Group's formal credit policy in place is to monitor the Group's exposure to credit risk through regular reviews of receivables and follow-up actions taken on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

26. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

(b) The analysis of the Group's trade receivables which are past due but not impaired is as follows:

	2017 RMB'000	2016 RMB'000
1 to 3 months past due	380	1,741
More than 3 months but less than 12 months past due	542	629
More than 1 year past due	539	387
	1,461	2,757

The Group's trade receivables which are past due but not impaired relate to rent due by a number of tenants of the Group's properties for whom there is no recent history of default.

The movements of impairment loss on trade receivables of the Group are as follows:

	2017 RMB'000	2016 RMB'000
At beginning of year	1,570	1,403
Impairment loss recognised	–	167
At end of year	1,570	1,570

The balances of other classes within the trade and other receivables category are neither past due nor impaired. They mainly comprise receivable from district government for resettlement housing in a project, prepaid construction costs paid to contractors on existing projects, prepaid taxes and maintenance funds paid to government on behalf of property buyers. Management considers that the credit risk associated with these receivables is minimal.

27. PREPAYMENTS/DEPOSITS FOR PROPOSED PROJECTS

The Group has entered into a number of contractual arrangements relating to remodelling certain old districts and other development projects. The balances are progress payments made on acquisition of projects, refundable earnest money or payments made in project acquisitions. These prepayments/deposits would be converted into properties under development upon the completion of the contracts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

28. SHORT-TERM INVESTMENTS

The Group invested in an insurance policy issued by a licensed insurance company on mainland China with investment value amounting to RMB100,000,000 as at 31 December 2017 which was used to secure a back-to-back letter of credit issued by a local bank in PRC to its overseas sub-branch. (2016: RMB NIL).

29. RESTRICTED AND PLEDGED DEPOSITS

	Notes	**2017** *RMB'000*	2016 *RMB'000*
To secure for:			
– letter of credit issued by banks to guarantee repayment of money market loans	*(a)*	**456,511**	375,382
– the payment of construction cost of development projects	*(b)*	**856,520**	611,616
– others		**233**	292
		1,313,264	987,290

Notes:

(a) As at 31 December 2017, to secure a back-to-back letter of credit issued by a local bank in the PRC to an offshore bank to guarantee a subsidiary's repayment of the latter's money market loan facility HK$500,000,000 (approximately RMB418,049,000), a bank deposit of RMB456,511,000 was placed in the local bank in the PRC.

(b) The balance represents deposits received from buyers of pre-sold properties. These deposits are restricted to be used only to pay construction costs of the development projects and will be put for free use by the project companies upon completion of the relevant projects.

30. CASH AND CASH EQUIVALENTS

	2017 *RMB'000*	2016 *RMB'000*
Short-term bank deposits	**569,111**	437,473
Cash at bank and in hand	**3,727,952**	2,344,257
	4,297,063	2,781,730
Less: Restricted and pledged deposits *(Note 29)*	**(1,313,264)**	(987,290)
	2,983,799	1,794,440

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

31. TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Current or less than 1 month	–	–
1 to 3 months	628	1,012
More than 3 months but less than 12 months	736	5
More than 12 months	4	2
Total trade payables	1,368	1,019
Construction costs payable	1,081,148	875,480
Tender receivable from the suppliers	36,387	49,287
Receipts in advance, rental and other deposits from buyers, customers and/or tenants	27,140	16,745
Receipts in advance from government on a project clearance	–	68,297
Resettlement payable	15,726	26,250
Accrued business taxes and surcharges	47,696	62,840
Other accrued expenses and other payables	164,881	90,607
	1,374,346	1,190,525

32. FINANCIAL GUARANTEE CONTRACT

(a) During the year ended 31 December 2017 and 31 December 2016, the Company provided corporate guarantees to secure for the repayment of a third party and subsidiaries' borrowings. The Directors consider that the exposure of these guarantees is minimal, and therefore no liabilities associated with the financial guarantee contracts are recognised as at 31 December 2017 and 31 December 2016.

(b) As at 31 December 2017, the Group provides guarantees to the extent of approximately RMB4,888,199,000 (2016: RMB3,406,943,000) in respect of credit facilities granted by certain banks relating to the mortgage loans arranged for some buyers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these buyers, the Group is responsible for repaying the outstanding mortgage principal, accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take legal action against the defaulted buyers for losses and take possession of the related properties from the defaulted buyers. Such guarantees shall terminate upon delivery of properties and issuance of relevant property ownership certificates to the property buyers. The management, with its assessment of the current and outlook of the market, perceives that the possibility of default in mortgage loans by home buyers is remote and, in the event of default, the liabilities caused to the Group will be minimal as the loss will be adequately mitigated by the proceeds recovered from the sales of the repossessed properties. Accordingly, no provision is made in the accounts for the financial guarantees.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSET AND LIABILITIES

	Notes	2017 RMB'000	2016 RMB'000
Bank and other borrowings			
Secured bank borrowings:			
(i) term loans, revolving loans and construction loans	*(a)*	**1,710,527**	2,033,634
(ii) money market loans	*(b)*	**506,842**	375,905
Other secured borrowings:			
(i) trust loan	*(c)(i)(ii)*	**616,008**	–
(ii) secured loans	*(d)(i)(ii)*	**423,164**	486,209
(iii) secured bonds	*(d)*	–	35,455
Unsecured borrowings:			
(i) unsecured bonds	*(e)*	**1,018,754**	524,860
		4,275,294	3,456,063
At the end of the year, the maturity profile of the bank and other borrowings are as follows:			
On demand or within one year		**1,171,198**	1,067,634
More than one year, but not exceeding two years		**1,686,658**	685,891
More than two years, but not exceeding five years		**408,057**	1,153,908
After five years		**1,009,381**	548,630
		4,275,294	3,456,063
Amounts due within one year included in current liabilities		**(1,171,198)**	(1,067,634)
Amounts due after one year		**3,104,096**	2,388,429
Derivative financial asset			
– Company Redemption Rights on Unsecured Bonds	*(e)*	**(46,144)**	(9,022)
Derivative financial liabilities			
– Exchange Rights and Extension Rights on Secured Bonds	*(d)*	–	11,177
– Holder Redemption Rights on Unsecured Bonds	*(e)*	**12,333**	2,182
		12,333	13,359
Amounts due within one year included in current liabilities		–	(11,177)
Amounts due after one year		**12,333**	2,182

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33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSET AND LIABILITIES (continued)

Notes:

(a) At 31 December 2017, all the bank borrowings are secured by mortgages of ownership titles of properties under development and investment properties with an aggregate carrying amount of approximately RMB3,387,207,000 (2016: RMB2,785,621,000). The bank borrowings carry interest at variable market rates ranging from 2.50% to 8.5% per annum (2016: 2.50% to 6.50% per annum) as at 31 December 2017. In addition to mortgages, the Company also provides corporate guarantees to secure for the repayment of a term loans and a revolving loan with carrying values totaling approximately RMB153,018,000 (2016: RMB149,310,000), a term loans and construction loan of approximately RMB1,278,808,000 (2016: RMB1,223,400,000) are secured by the personal guarantee provided by Mr. YU Pan and/or his spouse.

In June 2016, a commercial bank loan from the Singapore branch of a foreign bank was drawn down by the Company in principal amount US$60,000,000 (approximately RMB392,052,000) which is secured by personal guarantee provided by Mr. YU Pan and a legal charge over 1,587,168,407 shares of the Company beneficially owned by Mr. YU Pan. The bank loan was amortised at the effective interest method by applying an effective interest rate at 13.81%. The loan was fully repaid on 8 September 2017 prior to its maturity.

Other than a term loan of approximately RMB61,180,000 (2016: RMB68,805,000) which is repayable by monthly instalments until 2033 and another term loan of RMB246,803,000 (2016: RMB269,076,000) which is payable by monthly instalments until 2026, other bank borrowings in an aggregate amount of approximately RMB1,402,544,000 (2016: RMB1,974,948,000) are repayable in the years between 2018 and 2019.

As at 31 December 2017, the carrying values of the aforesaid bank borrowings are RMB1,710,527,000 (2016: RMB2,033,634,000).

(b) As at 31 December 2017, the money market loans in aggregate of approximately RMB506,842,000 (2016: RMB375,905,000) extended by two banks in China were secured by bank deposits of RMB456,511,000 and carry fixed rate at 1.95% and 2.33% per annum (2016: fixed rate at 1.9% per annum) and short-term investment in an insurance policy of RMB100,000,000 that carries at 6-month Hibor plus 0.4% per annum, at 1.36% per annum.

(c) (i) As at 31 December 2017, some residential units developed in Zhoutouzui project with aggregate carrying amount of approximately RMB273,000,000 are mortgaged to a financial institution to secure a loan of principal amount RMB500,000,000 granted to a subsidiary by a trust company (the "**Trust Loan A**"). The Trust Loan A carries a fixed rate interest at 7% per annum and has a term of three years and is repayable on 29 August 2020.

(ii) As at 31 December 2017, trust loan of principal amount RMB114,000,000 (the "**Trust Loan B**") was provided by 四川信託有限公司 (Sichuan Trust Company Limited) to 徐州譽城置業有限公司 (Xuzhou Yucheng Realty Company Limited) ("**Xuzhou Yucheng**"), which is secured by the equity interest in Xuzhou Yucheng, the project company of Xuzhou Times City Project and some residential units developed in Nanning Skyfame Garden Project with aggregate carrrying amount of approximately RMB560,056,000. The Trust Loan B carries interest at rate of 11.0% per annum and has a term of one year, extendable for a maximum of two years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSET AND LIABILITIES (continued)

Notes: (continued)

(d) (i) A secured loan due 2019 in the principal amount of HK$500,000,000 (RMB417,950,000) (the "**Secured Loan A**") was drawn down on 25 July 2017. The Secured Loan A was amortised at the effective interest method by applying the effective interest rate of 11.39% per annum. The Secured Loan has a term of two years.

Pursuant to the share charge dated 27 July 2017, Fortunate Start Investments Limited, a wholly-owned subsidiary of the Company, holding 100% equity interest in Guangzhou Zhoutouzui Development Limited ("**GZ Zhoutouzui**"), the project company of Zhoutouzui project has charged all its rights, title and interest in GZ Zhoutouzui in favour of the lender to secure the repayment of the Secured Loan.

The Secured Loan is also secured by legal charge over 321,860,000 shares of the Company beneficially owned by Mr. Yu Pan and personal guarantee provided by Mr. Yu Pan and his spouse.

(ii) The term loan of HK$560,000,000 (RMB468,104,000) (the "**Loan**") drawn down and convertible bonds issued by the Company in principal amount of HK$40,000,000 (RMB33,436,000) (the "**Convertible Bonds**") in 2015 had been repaid and redeemed in full in 2017. The Loan bears interests at the rate of 10% per annum.

The Loan and the Convertible Bonds are amortised using the effective interest method by applying effective interest rates of 16.13% and 16.10% per annum.

The movements of the Loan and Convertible Bonds are as follows:

	Loan	Convertible Bonds	**Total**
	RMB'000	*RMB'000*	***RMB'000***
At 31 December 2016 and 1 January 2017	486,209	35,455	**521,664**
Accrued interest expense	23,045	2,953	**25,998**
Loss on . repayment	8,543	–	**8,543**
Early repayment on 25 April 2017	(497,168)	–	**(497,168)**
Repayment on 22 July 2017	–	(34,716)	**(34,716)**
Interest paid	(16,998)	(2,643)	**(19,641)**
Exchange differences	(3,631)	(1,049)	**(4,680)**
At 31 December 2017	–	–	**–**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSET AND LIABILITIES (continued)

Notes: (continued)

(e) As at 31 December 2017, the Company has issued to some professional investors unsecured bonds respectively with the principal amounts in aggregate of HK$290,000,000 (RMB242,411,000) due on 12 September 2024 (the "**2024 Bonds**"), HK$80,000,000 (RMB66,872,000) due on 12 September 2025 (the "**2025 Bonds**"), HK$100,000,000 (RMB83,590,000) due on 12 September 2026 (the "**2026 Bonds**"), HK$10,000,000 (RMB8,359,000) due on 15 May 2027 (the "**2027 Bonds**"), HK$570,000,000 (RMB476,463,000) due on 14 November 2031 (the "**2031 Bonds**"), HK$960,000,000 (RMB802,464,000) due on 14 November 2032 (the "**2032 Bonds**"), HK$1,300,000,000 (RMB1,086,670,000) due on 14 November 2033 (the "**2033 Bonds**"), and HK$1,220,000,000 (RMB1,019,798,000) due on 16 June 2034 (the "**2034 Bonds**"). The 2024 Bonds, 2025 Bonds, 2026 Bonds and 2027 Bonds carry coupon interests at 7.5%, whilst the 2031 Bonds, 2032 Bonds, 2033 Bonds and 2034 Bonds carry coupon interests at 8.0% per annum. Interests chargeable on the bonds were payable in advance upon the issue of the bonds. In addition to the coupon interests, the bonds are subject to an annual interest of 0.1% per annum payable annually on 14 October (for the 2024 Bonds, 2025 Bonds and 2026 Bonds), 16 June (for the 2027 Bonds), 14 November (for the 2031 Bonds, 2032 Bonds and 2033 Bonds) and 16 June (for the 2034 Bonds) until maturity. The bonds were amortised at the effective interest method by applying the effective interest rates ranging from 10.92% to 13.14% per annum.

All Bondholders, depending on the relevant bonds, have the right to redeem the bonds either after 8th anniversary date from the issue of the bonds or at any time with agreed notice period. The Company has the right to redeem the 2031 Bonds, 2032 Bonds and 2033 Bonds on specific dates or periods.

In 2016, the Company issued unsecured bonds in an aggregate principal amount of HK$100,000,000 (RMB83,590,000) due on 4 July 2019 (the "**2019 Bonds**"). The 2019 Bonds carry interest at the actual rate of 10% per annum, which are payable quarterly in arrears, and mature in 2019. The 2019 Bonds were amortised at the effective interest method by applying the effective interest rate of 11.46% per annum.

During the year, the Company has issued the unsecured bonds in an aggregate principal amount of HK$200,000,000 (approximately RMB167,180,000) ("**2019/2020 Bonds**"). The 2019/2020 Bonds carry interests at the actual rate of 5% per annum, payable quarterly in arrears, and will mature in 2019 and 2020. The 2019/2020 Bonds were amortised at the effective interest method by applying the effective interest rate from 13.69 to 14.07% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSET AND LIABILITIES (continued)

Notes: (continued)

(e) (continued)

On 15 December 2017, the Company entered into an agreement to appoint a financial institution as an agent to place bonds issued by the Company in an aggregate principal amount up to HK$300 million. The bonds bear a term of three years at an annualised amortization rate of 12.11%. Up to 31 December 2017, no bonds have been issued pursuant to the placing agreement.

The movements of the bonds are as follows:

	2016 Bonds	2019 Bonds	2019/2020 Bonds	2024 Bonds	2025 Bonds	2026 Bonds	2027 Bonds	2031 Bonds	2032 Bonds	2033 Bonds	2034 Bonds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Nominal value	**–**	**100,000**	**200,000**	**290,000**	**80,000**	**100,000**	**10,000**	**570,000**	**960,000**	**1,300,000**	**1,220,000**	**4,830,000**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Nominal value	**–**	**83,590**	**167,180**	**242,411**	**66,872**	**83,590**	**8,359**	**476,463**	**802,464**	**1,086,670**	**1,019,798**	**4,037,397**
Liability component of carrying amount												
At 31 December 2015 and 1 January 2016	83,092	–	–	86,157	–	–	–	79,462	2,474	–	–	251,185
Issue of the bonds, net of transaction costs	–	76,597	33,819	–	64,374	25,294	–	–	760,682	211,869	–	1,172,635
Repayment	(83,982)	–	–	–	–	–	–	–	–	–	–	(83,982)
Discounts and interest paid	(3,152)	(2,170)	–	(248)	(40,753)	(16,856)	–	(498)	(635,189)	(179,952)	–	(878,818)
Accrued interest expense	3,844	5,495	440	11,336	1,016	3	–	9,988	5,432	10	–	37,564
Exchange differences	198	3,618	862	6,306	1,549	215	–	5,793	7,333	402	–	26,276
At 31 December 2016 and 1 January 2017	**–**	**83,540**	**35,121**	**103,551**	**26,186**	**8,656**	**–**	**94,745**	**140,732**	**32,329**	**–**	**524,860**
Reclassified		**6,970**	**3,399**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**10,369**
Issue of the bonds, net of transaction costs	**–**	**–**	**106,144**	**–**	**–**	**59,423**	**8,718**	**–**	**–**	**981,602**	**1,190,198**	**2,346,085**
Repayment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Discounts and interest paid	**–**	**(8,749)**	**(2,361)**	**(246)**	**(68)**	**(38,568)**	**(5,823)**	**(485)**	**(817)**	**(825,851)**	**(1,005,560)**	**(1,888,528)**
Accrued interest expense	**–**	**8,458**	**8,311**	**12,819**	**3,141**	**2,656**	**86**	**11,206**	**16,780**	**15,040**	**3,136**	**81,633**
Exchange differences	**–**	**(5,815)**	**(6,385)**	**(7,200)**	**(1,818)**	**(1,827)**	**(109)**	**(6,566)**	**(9,757)**	**(11,414)**	**(4,774)**	**(55,665)**
At 31 December 2017	**–**	**84,404**	**144,229**	**108,924**	**27,441**	**30,340**	**2,872**	**98,900**	**146,938**	**191,706**	**183,000**	**1,018,754**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

34. DEFERRED TAX ASSETS/LIABILITIES

Movements of the deferred tax assets/liabilities are as follows:

	Land appreciation tax	Tax losses	Withholding tax	Revaluation of properties: Leasehold land and building	Revaluation of properties: Investment properties	Revaluation of properties: Properties under development	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	–	–	–	6,296	85,877	76,608	168,781
Charged to profit or loss	(20,727)	(36,626)	–	(259)	2,000	–	(55,612)
At 31 December 2016 and at 1 January 2017	**(20,727)**	**(36,626)**	**–**	**6,037**	**87,877**	**76,608**	**113,169**
(Credit)/charged to profit or loss	**2,585**	**36,626**	**39,975**	**(259)**	**91,588**	**(48,438)**	**122,077**
At 31 December 2017	**(18,142)**	**–**	**39,975**	**5,778**	**179,465**	**28,170**	**235,246**

As at 31 December 2017, the Group have estimated unutilised tax losses of approximately RMB122,577,000 (2016: RMB321,486,000) for offsetting against future assessable profits. No deferred tax asset has been recognised in respect of these balances due to the unpredictability of future profit streams. The unrecognised tax losses include a balance of RMB77,048,000 (2016: RMB140,778,000) which may be carried forward indefinitely, and the remaining balance of RMB45,529,000 (2016: RMB180,708,000) will expire in five years.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has been provided for in the consolidated financial statements in respect of temporary difference attributable to accumulated profits of the PRC subsidiaries as the Group considered the temporary differences will reverse in the foreseeable future upon declaration of dividends of subsidiaries and associates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

35. SHARE CAPITAL

(a) Authorised and issued share capital

	Notes	Number of shares Ordinary share capital of HK$0.01 each '000	Nominal value Ordinary share capital of HK$0.01 each HK$'000	Equivalent nominal value of ordinary share capital of HK$0.01 each RMB'000
Authorised:				
At 31 December 2016 and 2017		**30,000,000**	**300,000**	**311,316**
Issued and fully paid:				
Ordinary shares of HK$0.01 each				
At 1 January 2016		2,216,531	22,165	21,068
Issue and allotment of placing shares	*(i)*	400,000	4,000	3,388
At 31 December 2016 and 1 January 2017		**2,616,531**	**26,165**	**24,456**
Shares issued under share option scheme	*(ii)*	**1,566**	**16**	**13**
At 31 December 2017		**2,618,097**	**26,181**	**24,469**

Note:

(i) Pursuant to a placing agreement entered by the Company with a placing agent on 17 May 2016 in relation to the placing of 400,000,000 shares of the Company at a price of HK$0.48 per share (the "**Placing**"), the Placing was completed on 6 June 2016 and 400,000,000 shares were issued and allotted to seven placees, raising proceeds, net of direct expenses, totaling approximately HK$187,500,000 (RMB158,793,000).

(ii) During the year ended 31 December 2017, 1,556,000 options with exercise price of HK$1.082 were exercised to subscribe for 1,566,000 ordinary shares in the Company at a consideration of HK$1,684,000 (equivalent to approximately RMB1,448,000) of which RMB13,000 was credited to share capital and the balance of RMB1,435,000 was credited to share premium. RMB727,000 transferred from the share-based payment reserve to the share premium account in accordance with policy set out in note 4.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

35. SHARE CAPITAL (continued)

(b) Capital management policy

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it by adjusting applicable policies on dividend pay-out, return to shareholders and debt and equity raising or redemption, in the light of changes in economic conditions. There have been no material changes in these objectives and policies or processes during the current and prior years.

The Company monitors capital using gearing ratio, which is calculated as net debt to the summation of capital and net debt. Net debt includes bank and other borrowings, derivative financial liabilities and loans from non-controlling shareholders of a subsidiary less cash and cash equivalents and restricted bank deposits backing up the money market loans. Capital represents equity attributable to owners of the Company.

The gearing ratio as at the end of the reporting period is calculated based on the following:

	2017	2016
	RMB'000	*RMB'000*
Total debt	**4,287,627**	3,469,422
Less: restricted bank deposits backing up the money market loans	**(456,511)**	(375,382)
Less: cash and cash equivalents	**(2,983,799)**	(1,794,440)
Net debt	**847,317**	1,299,600
Equity attributable to owners	**2,326,029**	1,765,109
Capital plus net debt	**3,173,346**	3,064,709
Gearing ratio (Net debt/Capital plus net debt)	**26.7%**	42.4%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RESERVES

	Share premium *RMB'000*	Contributed surplus reserve *RMB'000*	Share-based payment reserve *RMB'000*	Property revaluation reserve *RMB'000*	Merger reserve *RMB'000*	Statutory reserves *RMB'000*	Foreign exchange reserve *RMB'000*	Other/ capital reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2016	1,507,182	16,116	10,576	34,499	(293,095)	6,471	(1,303)	743	201,683	1,482,872
Issue of shares: Share placing	159,217	–	–	–	–	–	–	–	–	159,217
Share issue expenses	(3,812)	–	–	–	–	–	–	–	–	(3,812)
Recognition of equity-settled share-based payment expenses	–	–	9,596	–	–	–	–	–	–	9,596
Reallocation of lapsed options from share-based payment reserve to retained profits	–	–	(994)	–	–	–	–	–	994	–
Exchange differences arising on foreign operations	–	–	–	–	–	–	(138)	–	–	(138)
Transfer among reserves	–	–	–	(34,499)	–	–	–	–	34,499	–
Profit for the year	–	–	–	–	–	–	–	–	92,918	92,918
As at 31 December 2016 and at 1 January 2017	**1,662,587**	**16,116**	**19,178**	**–**	**(293,095)**	**6,471**	**(1,441)**	**743**	**330,094**	**1,740,653**
Issue of shares: Exercise of share options	**2,162**	**–**	**(727)**	**–**	**–**	**–**	**–**	**–**	**–**	**1,435**
Recognition of equity-settled share-based payment expenses	**–**	**–**	**6,185**	**–**	**–**	**–**	**–**	**–**	**–**	**6,185**
Exchange differences arising on foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**2,827**	**–**	**–**	**2,827**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**550,460**	**550,460**
At 31 December 2017	**1,664,749**	**16,116**	**24,636**	**–**	**(293,095)**	**6,471**	**1,386**	**743**	**880,554**	**2,301,560**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. RESERVES (continued)

(a) The following describes the nature and purpose of each reserve within owners' equity:

Share premium	The amount relates to subscription for share capital in excess of nominal value. The application of the share premium account is governed by clause 150 of the Company's bye-laws and the Companies Act 1981 of Bermuda.
Contributed surplus reserve	The amount arose from the capital reduction, cancellation of share premium and part of which has been set-off against the accumulated losses of the Company as at 31 December 2004 pursuant to a capital re-organisation. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its owners out of the contributed surplus reserve.
Share-based payment reserve	The reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees and non-employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 4(p).
Property revaluation reserve	Gains/losses arising on revaluing the identifiable assets and liabilities of existing subsidiaries when the Group further acquired the equity interest in the subsidiaries from non-controlling shareholders prior to 1 January 2007.
Merger reserve	The amount represents the difference between the fair value of combined capital of the Company and the carrying value of the assets and liabilities of the subsidiaries transferred to the Group pursuant to the acquisition of 100% interests in Long World Trading Limited.
Statutory reserves	In accordance with relevant rules and regulations concerning foreign investment enterprise established in the PRC and the articles of association, PRC subsidiaries of the Company were required to make appropriations from net profit to the reserve fund, staff and workers' bonus and welfare fund and enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions are made to investors. The percentage of profits to be appropriated to the above three funds are solely determined by the board of directors, except that being a wholly foreign-owned enterprise, transfer of 10% of the net profit for each year to the statutory reserves is mandatory until the accumulated total of the fund reaches 50% of its registered capital. During the current and prior years, the Group has not made any appropriations to the staff and workers' bonus and welfare fund and enterprise expansion fund.
Foreign exchange reserve	The amount represents gains/losses arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 4(n).
Capital reserve	The amount represents the portion of contribution from the non-controlling shareholders of a subsidiary attributable to owners of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

37. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

(a) 2005 Scheme

Pursuant to a resolution passed on 4 August 2005, a share option scheme was adopted (the "**2005 Scheme**").

The Company operates the 2005 Scheme for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2005 Scheme include the Directors and other employees of the Group. The 2005 Scheme became effective on 5 August 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the 2005 Scheme, the Directors are authorised, at their absolute discretion, to invite any employee (including the executive and non-executive Directors), executive or officer of any member of the Group or of any entity in which the Group holds equity interest and any supplier, consultant, adviser or customer of the Group or of any entity in which the Group holds equity interest who is eligible to participate in the 2005 Scheme, to take up options to subscribe for shares in the Company. Each option gives the holder the right to subscribe or one ordinary share in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of adoption of the 2005 Scheme.

The Company may seek approval of the shareholders in general meeting for refreshing the 10% limit under the 2005 Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit. Options previously granted under the 2005 Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the other scheme(s) or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

Notwithstanding aforesaid in this paragraph, the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

The total number of Company's shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue at the offer date (the "**Individual Limited**"). Any further grant of options in excess of the Individual Limit must be subject to the shareholders' approval in general meeting with such participant and his, her or its associates abstaining from voting.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

37. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(a) 2005 Scheme (continued)

The exercise price in respect of any particular option shall be such price as determined by the board of Directors (the "**Board**") in its absolute discretion at the time of the making of the offer but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the offer date; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the offer date; and (iii) the nominal value of the shares in the Company.

The offer of a grant of share options must be accepted not later than 21 days after the date of the offer, upon payment of a consideration of HK$1.00 by the grantee. The exercise period of the share options granted is determined by the Board, save that such period shall not be more than a period of ten years from the date upon which the share options are granted or deemed to be granted and accepted.

(b) 2015 Scheme

The 2005 Scheme expired on 3 August 2015. Therefore, the Company has adopted a new share option scheme on 9 June 2015 (the"**2015 Scheme**").

The Company operates the 2015 Scheme for the purposes of continuing to provide incentives or rewards to eligible participants for contribution they have made or may make to the Group and/or any entity/entities in which the Group holds any entity interest (the "**Invested Entity**"). The Board may at its discretion, grant share options to any of the eligible participants. Eligible participants of the 2015 Scheme include (i) any employee or proposed employee (whether full time or part time), and including executive directors; and (ii) any directors (including executive, non-executive and independent non-executive directors) of any member of the Group or any Invested Entity, and for the purpose of the 2015 Scheme, share options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. The 2015 Scheme became effective on 9 June 2015 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares available for issue upon exercise of all options to be granted under the 2015 Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of adoption of the 2015 Scheme.

The Company may seek approval of the shareholders in general meeting for refreshing the 10% limit under the 2015 Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the 2015 Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit. Options previously granted under the 2015 Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the other scheme(s) or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

37. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) 2015 Scheme (continued)

Notwithstanding aforesaid in this paragraph, the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 Scheme and any other share option schemes of the Company must not exceed, in aggregate, 30% of the total number of shares in issue from time to time.

The total number of Company's shares issued and to be issued upon exercise of the options granted and to be granted to each participant (including exercised, cancelled and outstanding options) under the 2015 Scheme and any other share option scheme of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue at the date of grant. Any further grant of options in excess of the aforesaid limit must be subject to the shareholders' approval in general meeting with such participant and his, her or its close associates abstaining from voting.

The exercise price in respect of any particular option shall be such price as determined by the Board in its absolute discretion but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of grant; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

The offer of a grant of share options must be accepted not later than 21 days after the date of the offer, upon payment of a consideration of HK$1.00 by the grantee. The exercise period of the share options granted is determined by the Board, save that such period shall not be more than a period of ten years from the date upon which the share options are granted or deemed to be granted and accepted.

NOTES TO THE FINANCIAL STATEMENTS

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37. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) 2015 Scheme (continued)

Details of the movement of the share options are as follows:

				During the year ended 31 December 2016				During the year ended 31 December 2017			
Date of grant	Exercise period	Adjusted exercise price per share	Number of options outstanding at 1 January 2016	Options granted	Options exercised	Options lapsed/ cancelled	Number of options outstanding at 31 December 2016 and 1 January 2017	Options granted *(Note)*	Options exercised	Options lapsed	Number of options outstanding at 31 December 2017
11 August 2011	11 August 2012 to 10 August 2021	HK$0.6714	5,942,929	–	–	–	5,942,929	–	–	–	**5,942,929**
11 August 2011	11 August 2015 to 10 August 2021	HK$0.6714	5,942,930	–	–	–	5,942,930	–	–	–	**5,942,930**
11 August 2011	11 August 2018 to 10 August 2021	HK$0.6714	5,942,932	–	–	–	5,942,932	–	–	–	**5,942,932**
			17,828,791	–	–	–	17,828,791	–	–	–	**17,828,791**
26 June 2015	26 June 2016 to 25 June 2025	HK$1.0820	10,296,000	–	–	(886,600)	9,409,400	–	(786,500)	–	**8,622,900**
26 June 2015	26 June 2017 to 25 June 2025	HK$1.0820	10,296,000	–	–	(886,600)	9,409,400	–	(779,500)	–	**8,629,900**
26 June 2015	26 June 2018 to 25 June 2025	HK$1.0820	10,296,000	–	–	(886,600)	9,409,400	–	–	–	**9,409,400**
26 June 2015	26 June 2019 to 25 June 2025	HK$1.0820	10,296,000	–	–	(886,600)	9,409,400	–	–	–	**9,409,400**
26 June 2015	26 June 2020 to 25 June 2025	HK$1.0820	10,296,000	–	–	(886,600)	9,409,400	–	–	–	**9,409,400**
26 June 2015	26 June 2021 to 25 June 2025	HK$1.0820	10,296,000	–	–	(886,600)	9,409,400	–	–	–	**9,409,400**
26 June 2015	26 June 2022 to 25 June 2025	HK$1.0820	10,224,000	–	–	(880,400)	9,343,600	–	–	–	**9,343,600**
			72,000,000	–	–	(6,200,000)	65,800,000	–	(1,566,000)	–	**64,234,000**
			89,828,791	–	–	(6,200,000)	83,628,791	–	(1,566,000)	–	**82,062,791**
Weighted average exercise price			HK$1.0005	–	–	HK$1.0820	HK$0.9945	–	HK$1.0820	–	**HK$0.9928**
Analysis by category:											
Directors			16,213,097	–	–	–	16,213,097	–	–	–	**16,213,097**
Other employees			73,615,694	–	–	(6,200,000)	67,415,694	–	(1,566,000)	–	**65,849,694**
			89,828,791	–	–	(6,200,000)	83,628,791	–	(1,566,000)	–	**82,062,791**

Note: The fair value of options granted was determined using the binominal (Cox, Ross, Rubinstein) option pricing valuation model by an independent valuer, APAC Asset Valuation and Consulting Limited. The significant inputs into the model were closing share price at the date of grant/ valuation date, expected volatility based on past few years historical price volatility of the Company, vesting period of the options, risk-free rate, being the yield of Hong Kong government bonds, life of the options, expiration of the options and expected ordinary dividend.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

37. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

The estimated fair value of each option granted on 11 August 2011 and 26 June 2015 were HK$0.42 and HK$0.58 respectively. The following information is relevant in the determination of the fair value of options granted during the year under the 2005 Scheme and the 2015 Scheme:

	2005 Scheme
Option pricing model	Binomial Model
Date of grant	11 August 2011
Closing share price at the date of grant	HK$0.67
Exercise price per share	HK$0.70
Annual risk-free rate	1.84%
Expected volatility	74%
Life of the option	10 years
Expected dividend yield	NIL

	2015 Scheme
Option pricing model	Binomial Model
Date of grant	26 June 2015
Closing share price at the date of grant	HK$1.02
Exercise price per share	HK$1.082
Annual risk-free rate	1.81%
Expected volatility	56%
Life of the option	10 years
Expected dividend yield	NIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

37. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

The share options granted on 11 August 2011 and 26 June 2015 are subject to the following vesting schedules and the vesting condition is that the individual remains a director or an employee of the Group at the time of exercise the options:

Option Exercise Period	2005 Scheme Number of share options exercisable
From 11/8/2012 to 10/8/2021	33%
From 11/8/2015 to 10/8/2021	33%
From 11/8/2018 to 10/8/2021	34%
	100%

Option Exercise Period	2015 Scheme Number of share options exercisable
From 26/6/2016 to 25/6/2025	14.30%
From 26/6/2017 to 25/6/2025	14.30%
From 26/6/2018 to 25/6/2025	14.30%
From 26/6/2019 to 25/6/2025	14.30%
From 26/6/2020 to 25/6/2025	14.30%
From 26/6/2021 to 25/6/2025	14.30%
From 26/6/2022 to 25/6/2025	14.20%
	100.00%

The fair value of share options granted is recognised as employee costs with a corresponding increase in share-based payment reserve within equity over the relevant vesting periods. The Group recognised RMB6,185,000 (2016: RMB9,596,000) (as disclosed in note 10), as equity-settled share-based payment expenses for the year ended 31 December 2017 in relation to share options granted by the Company.

The exercise price of options outstanding at the end of the year ranged between HK$0.9928 to HK$1.0820. During the year, 1,566,000share options were exercised, the weighted average share price at the date of exercise of option is HK$1.0820. The weighted average fair value of each option granted during the year was HK$0.53 (2016: HK$0.53).

The number of exercisable options as at 31 December 2017 is 29,138,659 (2016: 21,295,259) (granted in 2011 and 2015). The weighted average remaining contractual life of the outstanding options as at 31 December 2017 is 5.96 years (2016: 8.20 years).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before income tax to net cash from operating activities

	Note	2017 RMB'000	2016 RMB'000
Profit before income tax		**1,038,504**	95,757
Adjustments for:			
Finance costs		**33,088**	3,051
Finance income		**(36,483)**	(32,771)
Equity-settled share-based payment expenses		**6,185**	9,596
Depreciation of property, plant and equipment		**13,333**	13,592
Amortisation of leasehold land		**3,407**	3,407
Exchange loss, net		**(130,873)**	107,090
Fair value changes in financial derivative asset/ liabilities		**(13,080)**	(11,121)
Loss on early repayment of term loan		**23,418**	–
Impairment loss on trade and other receivables		**–**	167
Gain on disposal of subsidiaries	38(c)	**–**	(97,285)
Fair value changes in investment properties		**(35,701)**	(10,051)
Gain on properties valuation		**(353,351)**	–
Write-down of properties under development/ properties held for sale		**131,299**	–
Operating profit before working capital changes		**679,746**	81,432
Decrease in properties under Tianhe Project		**–**	786,168
Decrease/(increase) in properties under development		**4,619,167**	(2,392,906)
(Increase)/decrease in properties held for sale		**(3,806,812)**	359,460
Increase in trade and other receivables		**(1,116,372)**	(981,448)
Decrease/(increase) in consideration receivables from disposal of Tianhe Project and Yongzhou Project		**277,401**	(1,094,602)
(Decrease)/increase in trade and other payables		**(73,099)**	112,108
Increase in properties pre-sale deposits		**531,079**	3,595,842
Cash generated from operations		**1,111,110**	466,054
Income tax paid		**(138,596)**	(87,671)
Net cash from operating activities		**972,514**	378,383

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(b) Reconciliation of liabilities arising from financing activities

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

	Bank loans and other borrowings *(note 33)* *RMB'000*	**Derivative financial liabilities** *(note 33)* *RMB'000*
At 1 January 2017	3,456,063	13,359
Changes from cash flows:		
Addition	5,400,050	30,306
Repayment/Settlement	(2,587,677)	(16,197)
Interest paid	(1,935,918)	–
Other borrowing costs paid	(101,558)	–
Total changes from financing cash flows:	774,897	14,109
Exchange adjustments:	(146,075)	(816)
Changes in fair value:	–	(14,319)
Other changes:		
Interest expenses	166,991	–
Loss on early repayment of term loans	23,418	–
Total other changes	190,409	–
At 31 December 2017	4,275,294	12,333

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Disposal of a subsidiary

Disposal of 70% interest in the Yongzhou Project

On 27 September 2016, a subsidiary of the Company, 廣州譽浚咨詢服務有限公司 (GZ Yu Jun Consulting Service Company Limited)*, entered into an agreement with 廣州市天譽房地產開發有限公司 (Guangzhou Tianyu Real Estate Development Company Limited)*, pursuant to which GZ Yu Jun agreed to dispose of its 70% equity interest in 永州市天譽房地產開發有限公司 (Yongzhou Tianyu Real Estate Development Company Limited)* (“**YZ Tianyu**”), which is engaged in the development of Yongzhou Project, and YZ Tianyu to repay the shareholder loan owned to GZ Yu Jun by YZ Tianyu. The 70% equity interest was transferred and the shareholder loan repaid at an aggregate consideration of approximately RMB271,510,000, net of direct expenses, on 30 November 2016, resulting in a gain of approximately RMB97,285,000 which was charged in the consolidated profit or loss for the year.

Consideration received:	***RMB'000***
Cash received, net of direct expenses	271,510

Analysis of assets and liabilities over which control was lost:	**30 November 2016** ***RMB'000***
Property, plant and equipment	612
Properties held for sale	181,283
Trade and other receivables	11,630
Cash and cash equivalents	13,344
Trade and other payables	(26,680)
Prepaid tax/Income tax payable	(11,357)
Properties pre-sale deposits	(16,021)
Advanced payments received from customers	(915)
Net assets disposed of	151,896

Gain on disposal of YZ Tianyu:	***RMB'000***
Consideration received	271,510
Net assets disposed of	(151,896)
Non-controlling interests	(22,329)
Gain on disposal of YZ Tianyu	97,285

Net cash inflow arising from the disposal:	***RMB'000***
Cash received	139,822
Direct expenses incurred	(5,713)
Direct expenses accrued	4,394
Cash received, net of direct expenses	138,503
Bank balances and cash disposed of	(13,344)
	125,159

* *English name for identification purpose only*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

39. EMPLOYEE RETIREMENT BENEFITS

Defined contribution pension plans

As stipulated by the labour regulations of the PRC, the Group participates in the defined contribution pension plans organised by the municipal and provincial governments for the benefits of its employees in the PRC. The Group is required to make contributions to the plans at ranges of specified percentages of the eligible employees' salaries.

The Group also participates in the Mandatory Provident Fund Scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and have not previously participated in the defined contribution retirement plans as mentioned above. The MPF Scheme is a defined contribution pension scheme administered by independent trustees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the MPF Scheme at the rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (approximately RMB25,000). The Group's contributions vest fully in the employees when contributed into the MPF Scheme.

Under all the plans, the Group has no other obligation for the payment of its employees' retirement and other postretirement benefits other than contributions described above.

40. OPERATING LEASE COMMITMENTS

Lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarters which fall due as follows:

	2017	2016
	RMB'000	*RMB'000*
Within one year	**2,062**	390

Lessor

At the end of the reporting period, the Group had commitments for future minimum rental receivable under non-cancellable operating leases in respect of commercial properties leased out which fall due as follows:

	2017	2016
	RMB'000	*RMB'000*
Within one year	**12,806**	12,333
Later than one year but within five years	**28,409**	33,950
Later than five years	**–**	13,667
	41,215	59,950

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

41. COMMITMENTS

	2017 RMB'000	2016 RMB'000
Expenditure contracted but not provided for in respect of		
– Property construction and development costs	**2,318,950**	2,246,094

42. CONTINGENT LIABILITIES

The Group had no other material contingent liabilities as at 31 December 2017 (2016: Nil).

43. PLEDGE OF ASSETS

As at 31 December 2017, the Group's assets with carrying amounts included in the following categories in the consolidated statement of financial position were pledged to secure credit facilities granted to the Group as disclosed in note 33:

	2017 RMB'000	2016 RMB'000
Leasehold land and building	**190,409**	205,778
Investment properties	**615,400**	588,370
Properties under development	**2,847,096**	1,991,473
Properties held for sale	**567,658**	–
Short-term investments	**100,000**	–
Pledged deposits	**456,511**	375,382
	4,777,074	3,161,003

In addition, at the 31 December 2017, shares in certain subsidiaries of the Company were charged to secure the certain loan facilities were secured by corporate guarantees provided by the Company, personal guarantee provided by Mr. YU Pan and legal charge over shares beneficially owned by Mr. YU Pan, as disclosed in notes 33(a) and 33(d).

44. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material transactions with related parties:

(a) Material transactions with related parties

Related party relationship	Type of transaction	2017 RMB'000 Transaction amount	2016 RMB'000
Companies beneficially owned by Mr. YU Pan and his spouse	(i) Rental income received from office leasing	**111**	111
	(ii) Management fee paid to a related company	**(200)**	(200)
	(iii) Consideration received from disposal of Yongzhou Project	**137,401**	139,822

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

44. RELATED PARTY TRANSACTION (continued)

(b) Personal guarantee by the Chairman

As at 31 December 2017, Mr. YU Pan and a company controlled by him have provided personal guarantee and corporate guarantee to banks in respect of the loan facilities extended to some Company's subsidiaries as disclosed in notes 33(a) and 33(d)(i).

(c) Compensation of key management personnel

The remuneration of members of senior management, including Directors' emoluments as disclosed in note 11, incurred during the year is as follows:

	2017	2016
	RMB'000	*RMB'000*
Short-term benefits	**28,735**	20,908
Other long-term benefits	**566**	549
Equity-settled share-based payment expenses	**3,355**	5,249
	32,656	26,706

Members of senior management are those persons who have authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and executive officers.

45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

Financial assets of the Group mainly include available-for-sale investment, cash and cash equivalents, restricted and pledged deposits, consideration receivable, trade and other receivables, derivative financial asset, short-term investments and loan to a non-controlling shareholder of a subsidiary. Financial liabilities of the Group include bank and other borrowings, derivative financial liabilities and trade and other payables. The Group does not hold any financial instruments for trading purposes at the end of the reporting period.

The main financial risks faced by the Group are foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(a) Foreign currency risk

The Group and the Company have transactional currency exposures. Such exposures arise from financing and operating activities of the group entities conducted in currencies other than the functional currency.

The carrying amounts of the Group's monetary assets/(liabilities) which are denominated in currencies other than the functional currencies of the respective group entities at the end of the reporting period are as follows:

	2017	2016
	RMB'000	*RMB'000*
Derivative financial asset		
– HK$	**46,144**	9,022
Cash and cash equivalents		
– US$	**69,072**	1,339
– HK$	**136,069**	15,706
Bank and other borrowings		
– US$	**–**	(391,849)
– HK$	**(2,102,053)**	(1,571,738)
Derivative financial liabilities		
– HK$	**(12,333)**	(13,359)

The following table demonstrates the effect of sensitivity to reasonably possible changes in US$ and HK$ exchange rates, with all other variables held constant, on the Group's loss after income tax in the next accounting period:

	2017		2016	
	Change in exchange rate	**Increase (decrease) in loss after income tax**	Change in exchange rate	Increase (decrease) in loss after income tax
	%	***RMB'000***	%	*RMB'000*
If United States dollar weakens against Renminbi	**4%**	**(2,763)**	4%	15,620
If United States dollar strengthens against Renminbi	**4%**	**2,763**	4%	(15,620)
If Hong Kong dollar weakens against Renminbi	**4%**	**77,287**	4%	62,415
If Hong Kong dollar strengthens against Renminbi	**4%**	**(77,287)**	4%	(62,415)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(b) Interest rate risk

The following table details the interest rate profile of the Group's financial assets and liabilities as at the end of the reporting period based upon which the Company's management evaluates the interest rate risk:

	2017		2016	
	Effective interest rate	**Amount**	Effective interest rate	Amount
	(% per annum)	***RMB'000***	*(% per annum)*	*RMB'000*
The Group				
Financial assets				
Fixed rate receivables				
– Available-for-sale investment	**8.00%**	**10,000**	8.00%	10,000
– Short term investments	**3.30%**	**100,000**	–	–
– Restricted and pledged deposits	**1.95% to 2.33%**	**456,511**	1.90%	375,382
Floating rate receivables				
– Loan to a non-controlling shareholder of a subsidiary	**4.79%**	**52,900**	4.79%	52,900
– Restricted and pledged deposits	**0.35%**	**856,753**	0.35%	611,908
– Other cash at bank	**0.01% to 0.35%**	**2,983,799**	0.01% to 0.35%	1,827,759
Financial liabilities				
Fixed rate borrowings				
– Other borrowings	**7.00% to 11.00%**	**2,057,926**	10.75% to 16.13%	1,438,373
Floating rate borrowings				
– Bank borrowings	**2.10% to 8.50%**	**2,217,368**	1.90% to 8.50%	2,017,690

The Group's exposure to interest rate risk for changes in interest rates primarily relates to the Group's restricted and pledged deposits, loan to a non-controlling shareholder of a subsidiary, cash at bank included in cash and cash equivalents and floating rate bank and other borrowings. The Group does not use derivative financial instruments to hedge its cash flow interest rate risk of the Group's borrowings.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(b) Interest rate risk (continued)

The following table demonstrates the effect of sensitivity to reasonably possible changes in interest rates, with all other variables held constant, on the Group's loss after income tax in the next accounting period:

	2017		2016	
	Increase/ (decrease) in basis points	**(Decrease)/ increase in loss after income tax** *RMB'000*	Increase/ (decrease) in basis points	(Decrease)/ increase in loss after income tax *RMB'000*
Floating rate financial assets				
Increase in floating rate	**100**	**38,814**	100	24,926
Decrease in floating rate	**(100)**	**(38,814)**	(100)	(24,926)
Floating rate financial liabilities				
Increase in floating rate	**500**	**(110,868)**	500	(100,885)
Decrease in floating rate	**(500)**	**110,868**	(500)	100,885

(c) Credit risk

The Group's exposure to credit risk arises from the considerations receivable and trade and other receivables. Management has performed in-depth due diligence reviews of the financial background and creditability of the counterparties who owe debts to the Group. All considerations receivable for the disposal of interests in Tianhe Project and Yongzhou Project were fully settled in due course pursuant to the disposal agreements.

Management has a formal credit policy in place and the exposure to credit risk is monitored through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount. At the end of the reporting period, there is no significant concentration of credit risk in trade and other receivables.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and restricted and pledged deposits, arises from possible default of the counterparty is low. At the end of the reporting period, the Group has placed these deposits with banks and financial institutions of high credit.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(d) Liquidity risk

The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, is as follows:

	Total undiscounted cashflow							
	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2017								
Trade and other payables	**9,105**	**139,123**	**1,226,118**	**–**	**–**	**–**	**1,374,346**	**1,374,346**
Bank and other borrowings	**153,018**	**161,719**	**1,086,993**	**1,911,904**	**524,237**	**3,940,451**	**7,778,322**	**4,275,294**
Guarantee for property mortgage	**4,888,199**	**–**	**–**	**–**	**–**	**–**	**4,888,199**	**–**
	5,050,322	**300,842**	**2,313,111**	**1,911,904**	**524,237**	**3,940,451**	**14,040,867**	**5,649,640**
2016								
Trade and other payables	3,578	236,218	950,729	–	–	–	1,190,525	1,190,525
Bank and other borrowings	149,310	416,694	695,074	839,102	1,255,881	2,116,422	5,472,483	3,456,063
Guarantee for property mortgage	3,406,943	–	–	–	–	–	3,406,943	–
	3,559,831	652,912	1,645,803	839,102	1,255,881	2,116,422	10,069,951	4,646,588

Note: As at 31 December 2017, the bank borrowings of the Group of approximately RMB506,842,000 (2016: RMB375,905,000), were secured by standby letters of credit issued by bank that were secured by the Group's bank deposits of RMB456,511,000 (2016: RMB375,382,000) and short-term investments of HK$100,000,000 maturing at the same time of the bank borrowing.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

46. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE

The following table shows the carrying amount and fair value of financial assets and liabilities of the Group and the Company at the end of the reporting period:

	2017		2016	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivable				
– Trade and other receivables	**1,200,792**	***(Note)***	862,037	*(Note)*
– Deposits for proposed projects	**1,385,269**	***(Note)***	614,093	*(Note)*
– Available-for-sale investment	**10,000**	***(Note)***	10,000	*(Note)*
– Short-term investments	**100,000**	**(Note)**	–	–
– Loan to a non-controlling shareholder of a subsidiary	**52,900**	***(Note)***	52,900	*(Note)*
– Restricted and pledged deposits	**1,313,264**	***(Note)***	987,290	*(Note)*
– Cash and cash equivalents	**2,983,799**	***(Note)***	1,794,440	*(Note)*
Fair value through profit or loss				
– Derivative financial assets	**46,144**	**46,144**	9,022	9,022
Financial liabilities				
Financial liabilities at amortised costs				
– Trade and other payables	**1,374,346**	***(Note)***	1,190,525	*(Note)*
– Bank and other borrowings:				
the Secured Loans	**423,164**	***(Note)***	486,209	500,917
the Secured Bonds	**–**	**–**	35,455	36,355
the Unsecured Bonds	**1,018,754**	**914,527**	524,860	524,311
bank and other borrowings	**2,833,376**	***(Note)***	2,409,539	*(Note)*
Fair value through profit or loss				
– Derivative financial liabilities	**12,333**	**12,333**	13,359	13,359

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

46. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Note:

Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and other receivables, deposits for proposed projects, available-for-sale investment, short-term investments, loan to a non-controlling shareholder of a subsidiary, restricted and pledged deposits, cash and cash equivalents, trade and other payables and bank and other borrowings.

The Directors consider that the carrying amounts of these categories approximate their fair value on the grounds that either their maturities are short or their effective interest rates are approximate to the discount rates as at the end of the reporting period.

The fair value of bank and other borrowings issued for disclosure purposes has been determined in accordance with generally accepted pricing models based on discounted cash flow analysis using information from observable current market transactions.

Financial instruments measured at fair value

The fair value of derivative financial assets/liabilities, are calculated using quoted prices. Where such prices are not available, option pricing models are used for option derivatives.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 2 and level 3 financial instruments, as well as the relationship between key observable inputs and fair value are set out below.

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the liability that are not based on observable market data (unobservable inputs).

	2017	2016
	Level 3	Level 3
	RMB'000	*RMB'000*
Financial asset at fair value through profit or loss		
– Derivative	**46,144**	9,022
Financial liabilities at fair value through profit or loss		
– Derivatives	**12,333**	13,359

NOTES TO THE FINANCIAL STATEMENTS

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46. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Note: (continued)

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

	Financial asset RMB'000	Financial liabilities RMB'000	2017 RMB'000	2016 RMB'000
At 1 January	(9,022)	13,359	**4,337**	12,536
Issue of the Secured/Unsecured Bonds	(41,289)	14,109	**(27,180)**	2,000
Total gains or losses:				
– Changes in fair value recognised in profit or loss during the year	1,239	(14,319)	**(13,080)**	(11,121)
– Exchange differences	2,928	(816)	**2,112**	922
At 31 December	(46,144)	12,333	**(33,811)**	4,337

During the year ended 31 December 2017, there were no transfers between instruments in Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Liabilities for which fair value are disclosed

	Valuation technique	Significant inputs	2017 Level 3 RMB'000	2016 Level 3 RMB'000
Bank and other borrowings				
– the Secured Loans	The hull-white trinomial tree	Discount rate and short-term volatility parameter	–	500,917
– the Secured Bonds	Discounted cash flow	Discount rate and bond yield	–	36,355
– the Unsecured Bonds	The hull-white trinomial tree	Discount rate and short-term volatility parameter	**914,527**	524,311

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

46. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Financial asset/ liabilities	Fair value	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs *(Note)*	Relationship of unobservable inputs to fair value
Financial liabilities at fair value through profit or loss	Derivative financial liabilities – Holder Redemption Rights	Level 3	The hull-white trinomial tree	Discount Rate	Higher discount rate, higher the holder redemption rights
				Short-term volatility parameter	Higher the short-term volatility parameter, higher the holder redemption rights
Financial assets at fair value through profit or loss	Derivative financial assets – Company Redemption Rights	Level 3	The hull-white trinomial tree	Discount Rate	Higher the discount rate, lower the company redemption rights
				Short-term volatility parameter	Higher the short-term volatility parameter, higher the company redemption rights

Note:

If the discount rate is 5% higher/lower while all other variables were held constant, the carrying amount of the derivative financial liabilities/assets (Holder Redemption Rights and Company Redemption Rights) would decrease/increase by approximately RMB28,631,000 and RMB29,998,000 respectively as at 31 December 2017 (2016: RMB15,765,000 and RMB17,764,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

As at 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Interests in subsidiaries		**2,962,429**	3,090,174
Derivative financial asset		**46,144**	9,022
		3,008,573	3,099,196
Current assets			
Amounts due from subsidiaries		**24,513**	24,090
Prepayments and other receivables		**21,492**	14,478
Cash and cash equivalents		**149,350**	4,697
		195,355	43,265
Current liabilities			
Accruals and other payables		**2,287**	1,933
Amounts due to subsidiaries		**–**	302,743
Bank and other borrowings – current portion		**506,842**	521,664
Derivative financial liabilities – current portion		**–**	11,177
Income tax payable		**55,830**	55,830
		564,959	893,347
Net current liabilities		**(369,604)**	(850,082)
Total assets less current liabilities		**2,638,969**	2,249,114
Non-current liabilities			
Other borrowings – non-current portion		**1,441,918**	916,709
Derivative financial liabilities – non-current portion		**12,333**	2,182
		1,454,251	918,891
Net assets		**1,184,718**	1,330,223
Capital and reserves			
Share capital		**24,469**	24,456
Reserves	48	**1,160,249**	1,305,767
Total equity		**1,184,718**	1,330,223

On behalf of the Board

Yu Pan	**Wen Xiaobing**
Director	*Director*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

48. RESERVES OF THE COMPANY

	Share premium *RMB'000*	Contributed surplus reserve *RMB'000*	Share-based payment reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2016	1,507,182	16,116	10,576	(385,807)	1,148,067
Issue of shares: Share placing	159,217	–	–	–	159,217
Share issue expenses	(3,812)	–	–	–	(3,812)
Recognition of equity-settled share-based payment expenses	–	–	9,596	–	9,596
Reallocation of lapsed options from share-based payment reserve to accumulated losses	–	–	(994)	994	–
Loss for the year	–	–	–	(7,301)	(7,301)
As at 31 December 2016 and at 1 January 2017	**1,662,587**	**16,116**	**19,178**	**(392,114)**	**1,305,767**
Issue of shares: Exercise of share options	**2,162**	**–**	**(727)**	**–**	**1,435**
Recognition of equity-settled share-based payment expenses	**–**	**–**	**6,185**	**–**	**6,185**
Loss for the year	**–**	**–**	**–**	**(153,138)**	**(153,138)**
At 31 December 2017	**1,664,749**	**16,116**	**24,636**	**(545,252)**	**1,160,249**

49. PRINCIPAL SUBSIDIARIES

	Notes	**2017** ***RMB'000***	2016 *RMB'000*
Interests in subsidiaries – non-current portion			
Unlisted investments, at cost	*(a), (c)*	**2,962,429**	3,090,174
Amounts due from subsidiaries – current portion			
Amounts due from subsidiaries	*(b)*	**42,499**	42,076
Less: Provision for impairment loss		**(17,986)**	(17,986)
		24,513	24,090
		2,986,942	3,114,264
Amounts due to subsidiaries	*(b)*	**–**	(302,743)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

49. PRINCIPAL SUBSIDIARIES (continued)

Notes:

(a) Details of the Company's principal operating subsidiaries as at 31 December 2017 are as follows:

Name of subsidiaries	Place of incorporation/ establishment/ operation	Particulars of issued ordinary shares / paid-up capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activities
廣州市創豪譽投資管理諮詢有限公司 (前稱廣州市創譽房地產有限公司) Guangzhou Chuanghaoyu Investment Management Consulting Company Limited* ("**Chuanghaoyu**")	PRC	United States dollar ("**US$**") 6,000,000	–	100%	Investment holding and property leasing
廣州市豪浚置業有限公司 (Guangzhou Haojun Realty Company Limited)*	PRC	RMB50,000,000	–	100%	Investment holding
廣州市天譽物業管理有限公司 (Guangzhou Tianyu Property Management Company Limited)*	PRC	RMB53,000,000	–	100%	Property management services
廣州市天譽科技創新投資有限公司 (Guangzhou Tianyu Technology Innovative Company Limited)*	PRC	RMB50,000,000	–	70%	Provision of innovative technology operating services
廣州譽浚諮詢服務有限公司 (Guangzhou Yu Jun Consulting Service Company Limited)* ("**GZ Yu Jun**")	PRC	HK$5,000,000	–	100%	Investment holding and provision of property development project management services in the PRC
Guangzhou Zhoutouzui Development Limited	Hong Kong	HK$100	–	100%	Investment holding
南寧天譽巨成置業有限公司 (Nanning Tianyu Jucheng Realty Company Limited)* ("**Nanning Jucheng**")	PRC	RMB50,000,000	–	80%	Property development in the PRC
南寧天譽巨榮置業有限公司 Nanning Tianyu Jurong Realty Company Limited)*	PRC	RMB50,000,000	–	100%	Property development in the PRC
南寧天譽譽浚投資有限公司 (Nanning Tianyu Yujun Investment Company Limited)*	PRC	RMB50,000,000	–	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

49. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(a) (continued)

Name of subsidiaries	Place of incorporation/ establishment/ operation	Particulars of issued ordinary shares / paid-up capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activities
Skyfame Management Services Limited	Hong Kong	HK$1	100%	–	Provision of management services to group entities
Trenco Holdings Limited	Hong Kong	HK$10,000	–	100%	Investment holding
Waymax Investments Limited	Hong Kong	HK$1	–	100%	Property investment
Winprofit Investments Limited	BVI	US$100	100%	–	Investment holding
徐州譽城置業有限公司 (Xuzhou Yucheng Realty Company Limited)* (“**Xuzhou Yucheng**”)	PRC	RMB138,000,000	–	90%	Property development in the PRC
徐州建譽置業有限公司 (Xuzhou Jianyu Realty Company Limited)* (“**Xuzhou Jianyu**”)	PRC	RMB311,500,000	–	92%	Property development in the PRC

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affects the results or assets of the Group.

Chuanghaoyu and GZ Yu Jun are wholly foreign-owned enterprises established with limited liability in the PRC.

Xuzhou Yucheng is a sino-foreign joint venture company established in PRC.

(b) The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

* *English name is for identification purpose only.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

49. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(c) Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

Summarised statement of financial position

	Nanning Jucheng		YZ Tianyu Tourism		Xuzhou Yucheng		Xuzhou Jianyu	
	As at 31 December		As at 31 December		As at 31 December		As at 31 December	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Current								
Assets	**3,995,632**	4,572,035	**98,396**	98,811	**1,034,548**	181,456	**722,068**	–
Liabilities	**(4,058,387)**	(4,617,069)	**(350)**	(3)	**(615,392)**	–	**(411,474)**	–
	(62,755)	(45,034)	**98,046**	98,808	**419,156**	181,456	**310,594**	–
Non-current								
Assets	**610**	1,061	**4**	4	**439**	–	**–**	–
Liabilities	**–**	–	**–**	–	**(291,390)**	(43,506)	**–**	–
	610	1,061	**4**	4	**(290,951)**	(43,506)	**–**	–
Net assets/(liabilities)	**(62,145)**	(43,973)	**98,050**	98,812	**128,205**	137,950	**310,594**	–
Accumulated non-controlling interests	**(12,429)**	(8,794)	**29,414**	29,643	**12,821**	13,795	**24,816**	–

Summarised statement of profit or loss and other comprehensive income

	Nanning Jucheng		YZ Tianyu Tourism		Xuzhou Yucheng		Xuzhou Jianyu	
	For the year ended 31 December		For the year ended 31 December		For the year ended 31 December		For the year ended 31 December	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue	**766,222**	276,265	**–**	–	**–**	–	**–**	–
Loss before income tax	**(16,606)**	(44,313)	**(4)**	(5)	**(24,350)**	(47)	**(906)**	–
Income tax credit/(expense)	**(12,305)**	–	**–**	–	**1,922**	–	**–**	–
Loss after tax and total comprehensive income	**(28,911)**	(44,313)	**(4)**	(5)	**(22,428)**	(47)	**(906)**	–
Loss allocated to non-controlling interests	**(5,781)**	(8,862)	**(1)**	(2)	**(2,243)**	(5)	**(72)**	–
Dividends paid to non-controlling interests	**(4,601)**	–	**–**	–	**–**	–	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

49. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(c) Summarised financial information on subsidiaries with material non-controlling interests (continued)

Summarised statement of cash flows

	Nanning Jucheng For the year ended 31 December		YZ Tianyu Tourism For the year ended 31 December		Xuzhou Yucheng For the year ended 31 December		Xuzhou Jianyu For the year ended 31 December	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Cash flows from operating activities								
Cash generated from(used in)/from operations	**(593,212)**	744,208	**6,633**	7,609	**69,688**	(168,503)	**(631,395)**	–
Income tax paid	**(4,929)**	(33,122)	**–**	–	**(10,907)**	–	**–**	–
Other borrowing costs paid	**–**	–	**–**	–	**–**	–	**–**	–
Interest paid	**–**	(4,005)	**–**	–	**(3,986)**	–	**–**	–
Net cash from/(used in) from operating activities	**(598,141)**	707,081	**6,633**	7,609	**54,795**	(168,503)	**(631,395)**	–
Cash flows from investing activities								
Interest received	**3,134**	2,323	**1**	–	**270**	–	**4**	–
Disposal of a subsidiary, net of cash disposed of	**–**	–	**–**	–	**–**	–	**–**	–
Purchase of property, plant and equipment	**–**	(311)	**–**	–	**(528)**	–	**–**	–
Acquisitions of available-for-sale investment	**–**	(10,000)	**–**	–				
Acquisitions of short-term investments	**–**	–	**–**	–	**–**	–	**–**	–
Disposal of short term investments	**–**	–	**–**	–	**–**	–	**–**	–
Increase in restricted and pledged deposits	**46,902**	(78,610)	**–**	–	**–**	–	**–**	–
Net cash from/(used in) investing activities	**50,036**	(86,598)	**1**	–	**(258)**	–	**4**	–
Cash flows from financing activities								
New bank and other borrowings	**–**	–	**–**	–	**114,000**	–	**–**	–
Repayment of bank and other borrowings	**–**	–	**–**	–	**–**	–	**–**	–
Advance from/(repayment to) intermediate/ immediate holding company or fellow subsidiaries	**592,770**	(446,732)	**(6,622)**	(7,619)	**80,083**	43,486	**698,258**	–
Loan to shareholders	**–**	(162,500)	**–**	–	**–**	–	**–**	–
Capital contribution from shareholders	**–**	–	**–**	–	**–**	125,317	**–**	–
Net cash from/(used in) financing activities	**592,770**	(609,232)	**(6,622)**	(7,619)	**194,083**	168,803	**698,258**	–
Net increase/(decrease) in cash and cash equivalents	**44,665**	11,251	**12**	(10)	**248,620**	300	**66,867**	–
Cash and cash equivalents at beginning of year	**69,735**	58,484	**5**	15	**300**	–	**–**	–
Cash and cash equivalents at the end of year	**114,400**	69,735	**17**	5	**248,920**	300	**66,867**	–

The information above is the amount before inter-company eliminations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

50. SUBSEQUENT EVENT

1. On 13 March 2018, 廣州創富置業有限公司 (Guangzhou Chuangfu Realty Company Limited*) ("**GZ Chuangfu**"), an indirect wholly-owned subsidiary of the Company, entered into an agreement with the vendor for the acquisition of 79% of equity interest in 重慶核盛房地產開發有限公司 (Chongqing Hesheng Real Estate Development Company Limited*) ("**CQ Hesheng**"), a company incorporated in the PRC ("**Acquisition 1**"). CQ Hesheng is currently engaged in the development of two parcels of land under six land use right certificates covering an aggregate GFA of 1,204,000 sq.m situate in a central district in the city of Chongqing (the "**Chongqing Project**"). The detailed terms of the acquisition are set out in a framework agreement, dated 25 January 2018, entered into with the vendor and others which are to be completed in two phrases (the "**Framework Agreement**"). The total consideration in Acquisition 1 amounted to RMB4,677,338,900, being RMB434,500,000 for the acquisition of 79% equity interest in CQ Hesheng and settlement of a shareholder's loan due to the vendor by GZ Chuangfu at a principal value of RMB4,074,760,000 and outstanding interests of RMB168,078,900 accrued up to 20 December 2017 (subject to an adjustment to accrue additional interests up to the date of full repayment of the shareholder's loan), payable in cash by five tranches, the last one taking place on 180 days after the completion of Acquisition. The completion of the Framework Agreement is subject to the fulfillment of certain conditions, whereupon GZ Chuangfu will commence the process of a step-up acquisition for the remaining 1% equity interest in CQ Hesheng at a consideration of RMB5,500,000. On the date of this annual report, a payment of RMB434,500,000 was paid to the vendor as the consideration for the 79% equity interest.

   Retrospectively on 7 January 2018, GZ Chuangfu also entered into agreement with another vendor to acquire 20% equity interest in CQ Hesheng at a total consideration of RMB160,000,000. The acquisition transaction is to be completed and consideration payable by three phases. The first phase of acquisition of 1% equity is payable at a consideration of RMB5,500,000, the second phase for 11% equity at RMB60,500,000 and the last phase for 8% at RMB94,000,000. On the date of this annual report, a total amount of RMB66,000,000 has been paid by GZ Chuangfu of which RMB5,500,000 was paid for the 1% equity interest and the related transaction has been completed on 29 January 2018. The other RMB60,500,000 has been paid into a bank account co-managed by the vendor and GZ Chuangfu, and the 11% equity interest of CQ Hesheng are pledged in favour of GZ Chuangfu. The fund will be released as consideration for the 11% equity interest transfer upon the completion of Acquisition 1. The last payment of RMB94,000,000 is due 300 days after the completion of Acquisition 1. When all the acquisitions are completed, the total consideration of the acquisitions for the entire equity interest in CQ Hesheng and shareholder's loan totaling RMB4,842,838,900, subject to an adjustment of additional interest on the shareholder's loan. We expect the acquisition of the entire interest in CQ Hesheng and the shareholder's loan will be completed in the 2nd quarter of 2019.

   Details of the status of the development of Chongqing Project are set out in the "Property Portfolio" in the Management, Discussion and Analysis section of this annual report.

* *English name is for identification purpose only.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

50. SUBSEQUENT EVENT (continued)

2. Further to the placing agreement entered into by the Company and a financial institution acting as an arranger for the issue of medium-term bonds that are in issue, detail of which are shown in note 33 to the financial statements, on 8 January 2018, the Company agreed with the arranger to extend the size of the medium-term bond programme from HK$1,500,000,000 to HK$2,500,000,000.

51. COMPARATIVE FIGURES

Prepayments/deposits for proposed projects were previously included in trade and other receivables in the consolidated statement of financial position. To conform to current year's presentation, the above amount as at 31 December 2016 have been separated in the consolidated statement of financial position to facilitate a better presentation.

52. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 26 March 2018.

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF SKYFAME REALTY (HOLDINGS) LIMITED
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Skyfame Realty (Holdings) Limited (the "**Company**") and its subsidiaries (together referred to as the "**Group**") set out on pages 72 to 155, which comprise the consolidated statement of financial position as at 31 December 2016, 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 Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

Revenue recognition – Revenue recognised from sales of properties (Tianhe project)
During the year ended 31 December 2016, the Group recognised RMB1,116 million of revenue from Tianhe project.

Revenue from the sale of Tianhe project is recognised when the revenue recognition criteria under HKAS 18 "Revenue" in respect of the sale of the underlying assets and liabilities of the Tianhe Project have been fully satisfied, with reference to the terms of the agreement governing the sale transaction and the current circumstances of the performance of certain obligations of the Group.

We have identified revenue recognised from sales of Tianhe project as a key audit matter because of its significance to the consolidated financial statements.

Refer to note 7 in the consolidated financial statements.

How our audit addressed the key audit matter:
Our procedures in relation to this transaction included:

- Obtaining evidence regarding the transfer of risk and rewards of ownership;
- Reading the signed sale and purchase agreement;
- Reconciliation of the monetary amounts to the signed sale and purchase agreement and the final settlement statement; and
- Agreeing the outstanding consideration to the confirmation signed by the buyer.

Carrying values of properties held for development, properties under development and properties held for sale
The Group held several property projects and had entered into several arrangements during the year ended 31 December 2016 with a view to acquiring the underlying assets for property development.

The carrying amounts of the Group's properties held for development, properties under development and properties held for sale as at 31 December 2016 were RMB161 million, RMB7,971 million and RMB177 million respectively.

For the properties held for development and properties under development, management determined the net realisable value of the properties using the discounted cash flow forecast, which involved the use of estimates and assumptions including selling prices, construction costs and discount rate.

For the properties held for sale, management determined the net realisable value of the properties by the direct comparison approach, which involved the use of estimates and assumptions including recent sales price of similar properties with adjustments for any difference in nature, locality and condition of the properties.

INDEPENDENT AUDITOR'S REPORT

Independent external valuations were obtained in order to support management's estimates. The valuations are dependent on certain key assumptions that require significant management judgement, including the costs of completion and fair market prices of similar nature. The valuations of these properties are also dependent upon the estimated costs to complete and expected developer's profit margin.

We have identified the carrying values of properties held for development, properties under development and properties held for sale as a key audit matter because of its significance to the consolidated financial statements.

Refer to notes 23 and 24 in the consolidated financial statements.

How our audit addressed the key audit matter:
Our procedures in relation to management's valuation of these properties included:

- Reading the signed sales and purchase agreements to identify the rights and obligations of the Group and vendors;
- Discussing with the management and understanding the details of the properties development projects;
- Obtaining and reviewing the statutory records for transfer of shares of the vehicles holding the properties development projects;
- Checking to payment advices and verifying the amounts paid;
- Assessing the appropriateness of the methodologies used by management for the assessments of the net realisable value of properties held for development, properties under development and properties held for sale;
- Evaluation of the independent external valuers' competence, capabilities and objectivity;
- Assessing the methodologies used by the valuer and the appropriateness of the key assumptions based on our knowledge of the property industry; and
- Checking, on a sample basis, the accuracy and relevance of the input data used.

Valuation of investment properties
Management estimated the fair value of the Group's investment properties to be RMB588 million at 31 December 2016, with a revaluation gain of RMB10 million for the year ended 31 December 2016 recorded in the consolidated statement of profit or loss. Independent external valuations were obtained for the investment properties in order to support management's estimates. The valuations are dependent on certain key assumptions that require significant management judgement, including capitalisation rates and fair market rents.

We identified valuation of investment properties as a key audit matter because of its significance to the consolidated financial statements.

Refer to note 17 in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

How our audit addressed the key audit matter:
Our procedures in relation to management's valuation of investment properties included:

- Evaluation of the independent external valuers' competence, capabilities and objectivity;
- Assessing the methodologies used by the valuer and the appropriateness of the key assumptions based on our knowledge of the property industry; and
- Checking, on a sample basis, the accuracy and relevance of the input data used.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's 2016 annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

DIRECTORS' RESPONSIBILITIES 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 HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

INDEPENDENT AUDITOR'S REPORT

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 90 of Bermuda Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

- 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.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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.

BDO Limited
Certified Public Accountants
Chan Wing Fai
Practising Certificate no. P05443

Hong Kong, 31 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	7	**1,507,971**	306,321
Cost of sales and services		**(1,196,640)**	(272,393)
Gross profit		**311,331**	33,928
Other income and gains, net		**4,048**	1,402
Sales and marketing expenses		**(106,971)**	(46,000)
Administrative and other expenses		**(163,597)**	(137,516)
Unrealised exchange losses		**(97,231)**	(69,026)
Fair value changes in investment properties	17	**10,051**	6,736
Write-down of properties under development/properties held for sale	23, 24	**–**	(20,024)
Fair value changes in derivative financial asset/liabilities		**11,121**	2,632
Gain on disposal of subsidiaries		**97,285**	–
Finance costs	8	**(3,051)**	(1,813)
Finance income	8	**32,771**	21,198
Profit/(loss) before income tax	9	**95,757**	(208,483)
Income tax expenses	13	**(9,518)**	(23,781)
PROFIT/(LOSS) FOR THE YEAR		**86,239**	(232,264)
Other comprehensive income, items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on foreign operations		**(138)**	(891)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**86,101**	(233,155)
Profit/(loss) for the year attributable to:			
– Owners of the Company	14	**92,918**	(211,769)
– Non-controlling interests		**(6,679)**	(20,495)
		86,239	(232,264)
Total comprehensive income for the year attributable to:			
– Owners of the Company		**92,780**	(212,660)
– Non-controlling interests		**(6,679)**	(20,495)
		86,101	(233,155)
Earnings/(loss) per share – Basic and diluted	14	**RMB0.038**	(RMB0.096)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	16	**251,390**	262,725
Investment properties	17	**588,370**	570,058
Goodwill	19	**13,554**	13,554
Available-for-sale investment	20	**10,000**	–
Derivative financial asset	33	**9,022**	37
Deferred tax assets	35	**57,353**	–
		929,689	846,374
Current assets			
Properties held for development	23	**161,160**	–
Properties under development	23	**7,971,027**	6,159,277
Properties under Tianhe Project	18	**–**	786,168
Properties held for sale	24	**177,228**	177,850
Considerations receivable	22	**277,401**	105,000
Loan to a non-controlling shareholder of a subsidiary	26	**52,900**	20,400
Trade and other receivables	27	**1,476,130**	495,974
Short-term investments	28	**–**	460,000
Prepaid income tax		**93,368**	–
Restricted and pledged deposits	29	**987,290**	922,729
Cash and cash equivalents	30	**1,794,440**	383,255
		12,990,944	9,510,653
Current liabilities			
Trade and other payables	31	**1,190,525**	1,200,733
Properties pre-sale deposits		**7,290,196**	3,710,375
Bank and other borrowings – current portion	33	**1,067,634**	2,013,166
Derivative financial liabilities – current portion	33	**11,177**	–
Consideration from disposal of Tianhe Project	34	**–**	990,360
Income tax payable		**–**	5,378
		9,559,532	7,920,012
Net current assets		**3,431,412**	1,590,641
Total assets less current liabilities		**4,361,101**	2,437,015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Bank and other borrowings – non-current portion	33	**2,388,429**	746,656
Derivative financial liabilities – non-current portion	33	**2,182**	12,573
Deferred tax liabilities	35	**170,522**	168,781
		2,561,133	928,010
Net assets		**1,799,968**	1,509,005
Capital and reserves			
Share capital	36	**24,456**	21,068
Reserves	37	**1,740,653**	1,482,872
Equity attributable to owners of the Company		**1,765,109**	1,503,940
Non-controlling interests		**34,859**	5,065
Total equity		**1,799,968**	1,509,005

On behalf of the Board

YU Pan
Director

WEN Xiaobing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

		Attributable to owners of the Company												
	Notes	Share capital RMB'000	Share premium RMB'000	Contributed surplus reserve RMB'000	Share-based payment reserve RMB'000	Property revaluation reserve RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000	Foreign exchange reserve RMB'000	Other/ capital reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2015		21,068	1,507,182	16,116	12,152	34,499	(293,095)	6,471	(412)	743	405,330	1,710,054	25,560	1,735,614
Loss for the year		–	–	–	–	–	–	–	–	–	(211,769)	(211,769)	(20,495)	(232,264)
Other comprehensive expenses		–	–	–	–	–	–	–	(891)	–	–	(891)	–	(891)
Total comprehensive expenses for the year		–	–	–	–	–	–	–	(891)	–	(211,769)	(212,660)	(20,495)	(233,155)
Recognition of equity-settled share-based payment expenses	38	–	–	–	6,546	–	–	–	–	–	–	6,546	–	6,546
Reallocation of lapsed options from share-based payment reserve to retained profits		–	–	–	(8,122)	–	–	–	–	–	8,122	–	–	–
At 31 December 2015 and 1 January 2016		**21,068**	**1,507,182**	**16,116**	**10,576**	**34,499**	**(293,095)**	**6,471**	**(1,303)**	**743**	**201,683**	**1,503,940**	**5,065**	**1,509,005**
Profit for the year		–	–	–	–	–	–	–	–	–	**92,918**	**92,918**	**(6,679)**	**86,239**
Other comprehensive expenses		–	–	–	–	–	–	–	**(138)**	–	–	**(138)**	–	**(138)**
Total comprehensive expenses for the year		–	–	–	–	–	–	–	**(138)**	–	**92,918**	**92,780**	**(6,679)**	**86,101**
Issue of shares:														
Share placing issue	36(a)	**3,388**	**159,217**	–	–	–	–	–	–	–	–	**162,605**	–	**162,605**
Share issue expenses		–	**(3,812)**	–	–	–	–	–	–	–	–	**(3,812)**	–	**(3,812)**
Transfer among reserves		–	–	–	–	**(34,499)**	–	–	–	–	**34,499**	–	–	–
Capital contribution		–	–	–	–	–	–	–	–	–	–	–	**14,144**	**14,144**
Disposals of subsidiaries	39(b)	–	–	–	–	–	–	–	–	–	–	–	**22,329**	**22,329**
Recognition of equity-settled share-based payment expenses	38	–	–	–	**9,596**	–	–	–	–	–	–	**9,596**	–	**9,596**
Reallocation of lapsed options from share-based payment reserve to retained profits		–	–	–	**(994)**	–	–	–	–	–	**994**	–	–	–
At 31 December 2016		**24,456**	**1,662,587**	**16,116**	**19,178**	**–**	**(293,095)**	**6,471**	**(1,441)**	**743**	**330,094**	**1,765,109**	**34,859**	**1,799,968**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Net cash from operating activities	39(a)	**378,383**	853,053
Investing activities			
Interest received		**27,437**	22,880
Disposal of subsidiaries, net of cash disposed of	39(b)	**125,159**	–
Purchases of property, plant and equipment		**(1,883)**	(2,949)
Acquisition of available-for-sale investment		**(10,000)**	–
Acquisition of short-term investments		**(760,000)**	(908,000)
Disposal of short-term investments		**1,220,000**	692,000
Loan advanced to a non-controlling shareholder of a subsidiary		**(32,500)**	(20,400)
Increase in restricted and pledged deposits		**(64,561)**	(587,885)
Net cash from/(used in) investing activities		**503,652**	(804,354)
Financing activities			
Proceeds from shares issued under share placing	36(a)	**162,605**	–
Expenses incurred on issue of shares		**(3,812)**	–
New bank and other borrowings		**4,090,870**	2,360,401
Repayment of bank and other borrowings		**(2,612,688)**	(1,530,852)
Other borrowing costs paid		**(99,370)**	(38,135)
Interest paid		**(1,022,267)**	(656,788)
Capital contributions from non-controlling shareholders of subsidiaries		**14,144**	–
Net cash from financing activities		**529,482**	134,626
Net increase in cash and cash equivalents		**1,411,517**	183,325
Effect of exchange rate changes on cash and cash equivalents		**(332)**	(1,175)
Cash and cash equivalents at beginning of year		**383,255**	201,105
Cash and cash equivalents at end of year	30	**1,794,440**	383,255

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL

Skyfame Realty (Holdings) Limited (the "**Company**") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Its (a) registered office, (b) head office and principal place of business in the People's Republic of China ("**PRC**"), and (c) principal place of business in Hong Kong are at (a) Clarendon House, 2 Church Street, Hamilton HM11, Bermuda; (b) 32nd to 33rd floors of HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, PRC and (c) Unit 1401, 14th Floor, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong, respectively.

The Company's parent is Grand Cosmos Holdings Limited ("**Grand Cosmos**") and the directors of the Company (the "**Directors**") consider its ultimate holding company is Sharp Bright International Limited ("**Sharp Bright**"). Grand Cosmos and Sharp Bright are both incorporated in the British Virgin Islands (the "**BVI**").

The Company and its subsidiaries are hereinafter collectively referred to as the "**Group**". The principal activity of the Company continues to be investment holding. The principal activities of its subsidiaries are property development, property investment and property management.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 January 2016

HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts

Except as explained below, the adoption of these amendments has no material impact on the Group's financial statements.

Amendments to HKAS 1 – Disclosure Initiative

The amendments are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements.

Included in the clarifications is that an entity's share of other comprehensive income from equity accounted interests in associates and joint ventures is split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as a single line item within those two groups.

The adoption of the amendments has no impact on these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs“) (continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2016 (continued)

Amendments to HKAS 16 and HKAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendments are applied prospectively.

The adoption of the amendments has no impact on these financial statements as the Group has not previously used revenue-based depreciation methods.

Amendments to HKAS 27 – Equity Method in Separate Financial Statements

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are applied retrospectively in accordance with HKAS 8.

The adoption of the amendments has no impact on these financial statements as the Company has not elected to apply the equity method in its separate financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 – Investment Entities: Applying the Consolidation Exception

The amendments clarify that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a subsidiary of an investment entity (including investment entities that account for their subsidiaries at fair value rather than consolidating them). An investment entity parent will consolidate a subsidiary only when the subsidiary is not itself an investment entity and the subsidiary’s main purpose is to provide services that relate to the investment entity’s investment activities. A non-investment entity applying the equity method to an associate or joint venture that is an investment entity may retain the fair value measurements that associate or joint venture used for its subsidiaries. An investment entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss should provide the disclosures related to investment entities as required by HKFRS 12. The amendments are applied prospectively.

The adoption of the amendments has no impact on these financial statements as the Company is neither an intermediate parent entity nor an investment entity.

Amendments to HKFRS 11 – Accounting for Acquisitions of Interests in Joint Operations

The amendments require an entity to apply the relevant principles of HKFRS 3 Business Combinations when it acquires an interest in a joint operation that constitutes a business as defined in that standard. The principles of HKFRS 3 are also applied upon the formation of a joint operation if an existing business as defined in that standard is contributed by at least one of the parties. The amendment are applied prospectively.

The adoption of the amendments has no impact on these financial statements as the Group has not acquired or formed a joint operation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements have been issued but are not yet effective and have not been early adopted by the Group.

Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[2]
HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[2]
HKFRS 16	Leases[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

1 Effective for annual periods beginning on or after 1 January 2017

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for annual periods beginning on or after 1 January 2019

4 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

Amendments to HKAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (continued)

Amendments to HKFRS 9 – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at FVTOCI if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at FVTPL.

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

Amendments to HKFRS 15 – Revenue from Contracts with customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

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

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (continued)

Amendments to HKFRS 15 – Revenue from Contracts with customers (continued)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

Amendments to HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except that the investment properties and derivative financial asset/liabilities are stated at their fair values as explained in the accounting policies set out in note 4.

(c) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

(d) Functional and presentation currency

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is same as the functional currency of the Company and its principal subsidiaries.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Business combination and basis of consolidation (continued)

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRS. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Joint arrangements

The group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The group classifies its interests in joint arrangements as either:

- *Joint ventures*: where the group has rights to only the net assets of the joint arrangement; or

- *Joint operations*: where the group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement;

- The legal form of joint arrangements structured through a separate vehicle;

- The contractual terms of the joint arrangement agreement; and

- Any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goodwill

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("**CGUs**") that are expected to benefit from the synergies of the acquisition. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A CGU to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(e) Property, plant and equipment

The property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Leasehold land	12 to 38 years
Buildings	12 to 30 years
Furniture, fixtures and equipment	2 to 5 years
Motor vehicles	4 to 10 years

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment (continued)

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(f) Investment properties

Investment properties are properties held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

(g) Properties under development

Properties under development, including properties under Tianhe Project, are initially recognised at cost, and subsequently at the lower of cost and net realisable value. The cost of properties comprises land costs, development expenditure, professional fees and borrowing costs capitalised. Land costs include prepaid lease payments representing up-front payments to acquire long-term interests in lessee-occupied properties. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost represents the carrying amount of properties under development upon the completion of the construction of properties. Net realisable value represents the estimated selling price of properties sold in the ordinary course of business less estimated costs to be incurred in selling the properties.

(i) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

(ii) Impairment loss on financial assets (continued)

For Loans and receivables investments

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset

Available-for-sale investments

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

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

(iii) Financial liabilities (continued)

Financial liabilities at fair value through profit or loss (continued)

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost, including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Hong Kong Companies Ordinance, Cap. 622, came into operation on 3 March 2014. Under the Ordinance shares of the Company do not have a nominal value. Consideration received or receivable for the issue of shares on or after 3 March 2014 is credited to share capital. Commissions and expenses are allowed to be deducted from share capital under s. 148 and s. 149 of the Ordinance.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Company measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

(vii) Derecognition

The Group derecognises a financial asset where the contractual rights to the future cash flows in relation to the financial asset expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged or cancelled or expires.

(k) Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in profit or loss up to the date of disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable from goods sold or services provided, net of discounts and sales related taxes as follows:

(i) Revenue from sale of properties is recognised when the risks and rewards of ownership of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed, the properties have been delivered to the purchasers pursuant to the sales agreement and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are presented as current liabilities in the statement of financial position.

(ii) Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.

(iii) Property management service income is recognised when services are provided.

(iv) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(m) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Income taxes (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(n) Foreign currency

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the "**functional currency**") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of the group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of profit or loss on disposal.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits

(i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution pension plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

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

(p) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share-based payment reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in the share-based payment reserve within equity is recognised. For cash-settled share-based payments, a liability is recognised at the fair value of the goods or services received.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment/investment property under cost model;
- interests in leasehold land held for own use under operating leases; and
- Investment in subsidiaries, associates and joint ventures (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of a non-financial asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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, the existence of which 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.

(s) Leasing

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

The Group as lessor

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Leasing (continued)

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expenses, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

(t) Related parties

(a) 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 key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(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 the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Related parties (continued)

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 and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Key sources of estimation uncertainty are as follows:

(a) Impairment of non-financial assets other than goodwill

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgement from management with respect to whether such an event has occurred.

Upon the occurrence of triggering events, the carrying amounts of non-financial assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus residual value of the asset on disposal. Where the recoverable amount of non-financial assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

The impairment assessment is performed based on the discounted cash flow analysis. This analysis relies on factors such as forecast of future performance and long-term growth rates and the selection of discount rates. If these forecast and assumptions prove to be inaccurate or circumstances change, further write-down or reversal of the write-down of the carrying value of the non-financial assets may be required.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(b) Income taxes and deferred taxes

The Group is subject to taxation in the PRC and Hong Kong. Significant judgement is required in determining the amount of the provision for taxation and the timing of the related payments. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will have impact on the income tax and/or deferred tax provisions in the period in which such determination is made.

(c) Land appreciation taxes

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

Those subsidiaries of the Company which are engaged in property development business in the PRC are subject to land appreciation taxes, which have been included in income tax expense in profit or loss. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its LAT returns with the relevant tax authorities in respect of certain property development projects. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expense and provision for land appreciation taxes in the period in which such determination is made.

(d) Provision for write-down in value of properties under development and properties held for sale

Management of the Group reviews the development budget and the estimation of net realisable value of the properties at the end of each reporting period, and makes provision for write-down in value, if any. These estimates are based on management's monitoring of the development progress, the current market conditions which may affect the cost to complete and/or the selling price, and the historical experience of selling the properties of similar nature. It could change as a result of changes in market conditions or internal factors of the Group. Such changes will have impact on the carrying amounts of the properties and the provision for write-down in value in the period in which such estimates have been changed. The Group reassesses these estimates at the end of each reporting period.

(e) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical judgments in applying accounting policies are as follows:

(a) Consideration from disposal of Tianhe Project

During the year ended 31 December 2016, the management makes judgement on whether the revenue recognition criteria under HKAS 18 *Revenue* in respect of the sale of the underlying assets and liabilities of the Tianhe Project have been fully satisfied, with reference to the terms of the agreement governing the sale transaction and the current circumstances of the performance of certain obligations of the Group. As fully satisfied the revenue recognition criteria, the related revenue and costs of the project are charged to profit or loss for the year. More details have been set out in note 34.

(b) Acquisition of projects

During the year ended 31 December 2016, the Group had several acquisitions of projects. The management makes judgement on whether the Group has controls over the investees and the rights are substantive in accordance with HKFRS10. The Group consolidated the investees in the consolidated financial statements if control is existed. The Group classified the amounts paid as deposits if the Group did not obtain the control.

6. SEGMENT REPORTING

In a manner consistent with the way in which information is reported internally for the purposes of resource allocation and performance assessment, the Group is currently organised into three operating divisions, i.e. property development, property investment and property management services. As management of the Group considers that nearly all consolidated revenue are attributable to the markets in the PRC and consolidated non-current/current assets are substantially located in the PRC, no geographical information is presented. The Group's reportable segments are as follows:

Property development	–	Property development and sale of properties
Property investment	–	Property leasing
Property management	–	Property management services

The Group's senior executive management monitors the results attributable to each reportable segment on the basis that revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses directly incurred by those segments. In addition to the segment performance in terms of segment results, management also provides other segment information concerning depreciation and amortisation, fair value changes in investment properties, gain from bargain purchase and write-down of properties under development/ held for sale.

Segment assets/liabilities include all assets/liabilities attributable to those segments with the exception of short-term investments, cash and bank balances, unallocated bank and other borrowings, derivative financial asset/liabilities and taxes. Investment properties are included in segment assets but the related fair value changes in investment properties are excluded from segment results because the Group's senior executive management considers that they are not generated from operating activities.

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit that is used by the chief operating decision-maker for assessment of segment performance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT REPORTING (continued)

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance in the consolidated financial statements is set out below:

	Property development *RMB'000*	Property investment *RMB'000*	Property management *RMB'000*	Total *RMB'000*
Year ended 31 December 2016				
Segment revenue				
Reportable segment revenue	1,471,330	24,549	32,863	1,528,742
Elimination of intra-segment revenue	–	(8,035)	(12,736)	(20,771)
Consolidated revenue from external customers	1,471,330	16,514	20,127	1,507,971
Segment results	(214,367)	7,800	(12,809)	(219,376)
Reconciliation:				
Unallocated corporate net expenses				166,956
				(52,420)
Fair value changes in investment properties	–	10,051	–	10,051
Gain on disposal of subsidiaries	97,285	–	–	97,285
Fair value changes in derivative financial asset/liabilities				11,121
Finance costs				(3,051)
Finance income				32,771
Consolidated profit before income tax				95,757
Other segment information:				
Depreciation and amortisation	(1,592)	(805)	(1,747)	(4,144)
Impairment loss on trade and other receivables	–	(11)	(156)	(167)
Additions to properties under Tianhe project	37,495	–	–	37,495
Additions to properties held for/under development	2,298,694	–	–	2,298,694
Capital expenditure	1,708	–	153	1,861
As at 31 December 2016				
Assets and liabilities				
Assets				
Reportable segment assets	9,927,387	1,283,999	41,697	11,253,083
Reconciliation:				
Derivative financial asset				9,022
Available-for-sale investment				10,000
Prepaid income tax				93,368
Deferred tax assets				57,353
Cash and cash equivalents				1,794,440
Unallocated restricted and pledged deposits				375,382
Unallocated corporate assets				
– Leasehold land and building				205,778
– Other corporate assets				122,207
Consolidated total assets				13,920,633
Liabilities				
Reportable segment liabilities	9,670,023	12,733	12,273	9,695,029
Reconciliation:				
Deferred tax liabilities				170,522
Derivative financial liabilities				13,359
Unallocated bank and other borrowings				2,232,665
Unallocated corporate liabilities				9,090
Consolidated total liabilities				12,120,665

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT REPORTING (continued)

	Property development *RMB'000*	Property investment *RMB'000*	Property management *RMB'000*	Total *RMB'000*
Year ended 31 December 2015				
Segment revenue				
Reportable segment revenue	269,427	26,410	29,123	324,960
Elimination of intra-segment revenue	–	(8,166)	(10,473)	(18,639)
Consolidated revenue from external customers	269,427	18,244	18,650	306,321
Segment results	(118,184)	12,827	(14,156)	(119,513)
Reconciliation:				
Unallocated corporate net expenses				(97,699)
				(217,212)
Fair value changes in investment properties	–	6,736	–	6,736
Write-down of properties under development/ properties held for sale	(20,024)	–	–	(20,024)
Fair value changes in derivative financial asset/ liabilities				2,632
Finance costs				(1,813)
Finance income				21,198
Consolidated loss before income tax				(208,483)
Other segment information:				
Depreciation and amortisation	(1,366)	(896)	(1,733)	(3,995)
Impairment loss on trade and other receivables	–	75	(285)	(210)
Additions to properties under Tianhe project	9,077	–	–	9,077
Additions to properties under development	2,395,868	–	–	2,395,868
Capital expenditure	1,869	–	161	2,030
As at 31 December 2015				
Assets and liabilities				
Assets				
Reportable segment assets	8,009,651	577,828	42,170	8,629,649
Reconciliation:				
Derivative financial asset				37
Short-term investments				460,000
Cash and cash equivalents				383,255
Unallocated restricted and pledged deposits				652,010
Unallocated corporate assets				
– Leasehold land and building				212,638
– Other corporate assets				19,438
Consolidated total assets				10,357,027
Liabilities				
Reportable segment liabilities	6,293,360	6,980	510,846	6,811,186
Reconciliation:				
Income tax payable				5,378
Deferred tax liabilities				168,781
Derivative financial liabilities				12,573
Unallocated bank and other borrowings				1,839,183
Unallocated corporate liabilities				10,921
Consolidated total liabilities				8,848,022

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT REPORTING (continued)

Information about major customers

Revenue from customers contributing over 10% of total revenue of the Group is as follows:

	2016	2015
	RMB'000	*RMB'000*
HNA Hotel *(Note)*	**1,115,557**	–

Note: Revenue from sale of properties.

None of the customers of the Group contributed more than 10% of the Group's revenue for the year ended 31 December 2015.

7. REVENUE

Revenue includes the net invoiced value of goods sold, contract revenue and rental income earned by the Group, and net of sales related taxes. The amounts of each significant category of revenue recognised during the year are as follows:

	2016	2015
	RMB'000	*RMB'000*
Sale of properties	**1,471,268**	269,288
Rental income	**16,576**	18,383
Property management services	**20,127**	18,650
	1,507,971	306,321

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. FINANCE COSTS AND INCOME

	2016 *RMB'000*	2015 *RMB'000*
Finance costs:		
Interest on bank and other borrowings	**203,207**	245,730
Less: Amount capitalised as properties under development		
Interest on bank and other borrowings	**(200,169)**	(243,917)
	3,038	1,813
Other borrowing costs	**14,041**	26,569
Less: Amount capitalised as properties under development	**(14,028)**	(26,569)
	13	–
Finance costs charged to profit or loss	**3,051**	1,813
Finance income:		
Bank interest income	**24,876**	9,072
Interest income on short-term investments	**6,325**	11,814
Interest income on loan to a non-controlling shareholder of a subsidiary	**1,570**	312
Finance income credited to profit or loss	**32,771**	21,198

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 9.0% (2015: 10.8%), which is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the year, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

9. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(Loss) before income tax for the year has been arrived at after charging/(crediting):

	Notes	**2016** **RMB'000**	2015 *RMB'000*
Cost of properties sold		**1,186,772**	263,105
Write-down of properties under development/ properties held for sale		–	20,024
Cost of inventories recognised in profit or loss		**1,186,772**	283,129
Staff costs, including directors' emoluments	*10*	**102,344**	73,854
Auditor's remuneration			
– current year		**1,382**	793
– non-audit services		**548**	478
Depreciation of property, plant and equipment	*16*	**13,731**	13,178
Less: Amount capitalised as properties under development	*23*	**(139)**	(92)
Depreciation charged to profit or loss		**13,592**	13,086
Amortisation of leasehold land	*16*	**3,407**	3,407
Depreciation and amortisation charged to profit or loss		**16,999**	16,493
Minimum lease payments under operating lease in respect of:			
– rented office premises		–	574
– rented other premises		**320**	499
Unrealised exchange loss		**97,231**	69,026
Impairment loss on trade and other receivables		**167**	292
Bad debts recovered		–	(82)
Direct operating expenses arising from investment properties that generated rental income		**2,475**	2,821
Direct operating expenses arising from investment properties that did not generate rental income		**234**	192

10. STAFF COSTS

	2016 **RMB'000**	2015 *RMB'000*
Staff costs (including directors' emoluments) comprise:		
Basic salaries and other benefits	**95,815**	90,270
Bonuses	**46,423**	6,500
Equity-settled share-based payment expenses	**9,596**	6,546
Contributions to defined contribution pension plans	**5,262**	4,946
	157,096	108,262
Less: Amount capitalised as properties under development	**(54,752)**	(34,408)
Staff costs charged to profit or loss	**102,344**	73,854

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. DIRECTORS' EMOLUMENTS

The aggregate amounts of the directors' emoluments disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance (Cap. 622) (the Ordinance) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) (the Regulation) are as follows:

	Fees RMB'000	Salaries and other benefits RMB'000 (note (a))	Bonuses RMB'000 (note (b))	Equity-settled share-based payment expenses RMB'000	Contributions to defined contribution pension plan RMB'000	Total RMB'000
2016						
Executive directors						
YU Pan	–	2,104	795	–	15	2,914
WEN Xiaobing	102	1,747	691	1,164	68	3,772
WONG Lok	–	226	–	–	11	237
JIANG Jing	102	755	63	–	68	988
Non-executive director						
ZHONG Guoxing	–	–	–	–	–	–
Independent non-executive directors						
CHOY Shu Kwan	205	–	–	133	–	338
CHENG Wing Keung, Raymond	205	–	–	133	–	338
CHUNG Lai Fong	205	–	–	133	–	338
	819	4,832	1,549	1,563	162	8,925
2015						
Executive directors						
YU Pan	–	2,036	498	–	14	2,548
WEN Xiaobing	96	1,730	288	876	64	3,054
WONG Lok	–	213	–	–	10	223
JIANG Jing (appointed on 1 July 2015)	49	440	73	–	39	601
Non-executive director						
ZHONG Guoxing	–	–	–	–	–	–
Independent non-executive directors						
CHOY Shu Kwan	192	–	–	67	–	259
CHENG Wing Keung, Raymond	192	–	–	67	–	259
CHUNG Lai Fong	192	–	–	67	–	259
	721	4,419	859	1,077	127	7,203

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. DIRECTORS' EMOLUMENTS (continued)

Comparative information has been prepared with reference to the provisions in the Ordinance and the Regulation. Certain information has been restated due to the requirements in the Ordinance and the Regulation are not the same as the Hong Kong Companies Ordinance, Cap. 32.

Notes:

(a) Salaries and other benefits included basic salaries, housing and other allowances and benefits-in-kind.

(b) Bonuses were not contractual but were discretionarily provided based on the Directors' performance. The amounts of entitlement were subject to approval by the remuneration committee of the Company.

(c) Mr. WEN Xiaobing acted as chief executive of Guangzhou head office and his emoluments for the period are included in note 12 below.

(d) Equity-settled share-based payment represents the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share option is estimated according to the accounting policies for share-based payments as set out in Note 38 to the financial statements. Further details of the options granted are set out in Note 38.

There was no arrangement under which a Director has waived or agreed to waive any emoluments during the current and prior years.

12. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group during the year, two (2015: two) are Director whose emoluments are included in note 11 above. The emoluments of the remaining three (2015: three) are as follows:

	2016	2015
	RMB'000	*RMB'000*
Basic salaries and other benefits	**4,412**	4,192
Bonuses	**2,966**	894
Equity-settled share-based payment expenses	**3,326**	1,964
Contributions to defined contribution pension plans	**152**	143
	10,856	7,193

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. FIVE HIGHEST PAID INDIVIDUALS (continued)

Their emoluments are within the following bands:

	Number of individuals	
	2016	2015
RMB1,789,001 to RMB2,236,000 (equivalent to HK$2,000,001 to HK$2,500,000)	–	1
RMB2,236,001 to RMB2,684,000 (equivalent to HK$2,500,001 to HK$3,000,000)	–	1
RMB2,684,001 to RMB3,131,000 (equivalent to HK$3,000,001 to HK$3,500,000)	–	1
RMB3,131,001 to RMB3,578,000 (equivalent to HK$3,500,001 to HK$4,000,000)	**1**	–
RMB3,578,001 to RMB4,025,000 (equivalent to HK$4,000,001 to HK$4,500,000)	**2**	–

The emoluments paid or payable to members of senior management (excluding the directors as disclosed in note 11) are within the following bands:

	Number of senior management	
	2016	2015
RMBNil to RMB895,000 (equivalent to HK$Nil to HK$1,000,000)	**1**	–
RMB895,001 to RMB1,342,000 (equivalent to HK$1,000,001 to HK$1,500,000)	**1**	1
RMB1,342,001 to RMB1,789,000 (equivalent to HK$1,500,001 to HK$2,000,000)	**2**	1
RMB1,789,001 to RMB2,236,000 (equivalent to HK$2,000,001 to HK$2,500,000)	–	1
RMB2,236,001 to RMB2,684,000 (equivalent to HK$2,500,001 to HK$3,000,000)	**1**	1
RMB2,684,001 to RMB3,131,000 (equivalent to HK$3,000,001 to HK$3,500,000)	–	1
RMB3,131,001 to RMB3,578,000 (equivalent to HK$3,500,001 to HK$4,000,000)	**1**	–
RMB3,578,001 to RMB4,025,000 (equivalent to HK$4,000,001 to HK$4,500,000)	**2**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. INCOME TAX EXPENSE

The amount of taxation in the consolidated statement of comprehensive income represents:

	2016	2015
	RMB'000	*RMB'000*
Current tax		
Hong Kong profits tax	–	–
PRC corporate tax		
– current year	**60,228**	233
– write-off of provisional corporate income taxes	–	7,576
PRC LAT		
– current year	**4,902**	9,471
– write-off of provisional LAT	–	6,768
	65,130	24,048
Deferred tax		
– current year	**(55,612)**	(267)
Total income tax expenses	**9,518**	23,781

No provision for Hong Kong profits tax has been made for the year ended 31 December 2016 (2015: Nil) as the Group has no estimated assessable profits in respect of operation in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% (2015: 16.5%) for the year.

Enterprise income tax arising from other regions of the PRC is calculated at 25% (2015: 25%) of the estimated assessable profits.

The provision of PRC LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided, as appropriate, at ranges of progressive rates from 30% to 60% on the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditure.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. INCOME TAX EXPENSE (continued)

The income tax expense for the year can be reconciled to the profit/(loss) before income tax per the consolidated statement of profit or loss as follows:

	2016 RMB'000	2015 RMB'000
Profit/(loss) before income tax	**95,757**	(208,483)
Tax calculated at the applicable income tax rate of 25% (2015: 25%)	**23,939**	(52,121)
Effect of different tax rates of entities operating in other jurisdictions	**8,212**	16,583
Tax effect of expenses not deductible for tax purposes	**219,514**	16,158
Tax effect of revenue not subject to tax	**(277,515)**	(948)
Tax effect of gian on disposal of a subsidiary	**(24,321)**	–
Tax effect of tax losses not recognised	**43,900**	13,580
Tax effect of LAT	**4,902**	16,239
Under-provision in respect of prior years	**2,897**	7,578
Tax effect of other temporary differences not recognised	**8,776**	6,783
Others	**(786)**	(71)
Income tax expense	**9,518**	23,781

14 EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share is based on the profit/(loss) attributable to ordinary shareholders of the Company and the following data:

	2016 RMB'000	2015 RMB'000
Profit/(loss) for the purposes of basic and diluted earnings/loss per share	**92,918**	(211,769)
	Number of shares	
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic and diluted earnings/(loss) per share	**2,444,946**	2,216,531
Basic	**RMB0.038**	(RMB0.096)
Diluted	**RMB0.038**	(RMB0.096)

The weighted average number of ordinary shares in issue during the year was adjusted to reflect the effect of issuing and allotment of placing shares on 6 June 2016.

For the year ended 31 December 2016 and 2015, basic earnings/(loss) per share is the same as diluted earnings/(loss) per share as any effect arising from the exercise of Company's options and convertible bonds is no dilutive.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

15. DIVIDENDS

The Company does not have distributable reserve available for payment of dividend for the year ended 31 December 2016 (2015: Nil).

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost				
At 1 January 2015	269,164	11,058	7,626	287,848
Additions	–	1,187	1,762	2,949
Written off/disposals	–	(51)	–	(51)
Exchange differences	4,593	242	134	4,969
At 31 December 2015 and at 1 January 2016	**273,757**	**12,436**	**9,522**	**295,715**
Additions	**–**	**1,112**	**771**	**1,883**
Disposal of subsidiaries	**–**	**(486)**	**(866)**	**(1,352)**
Written off/disposals	**–**	**(29)**	**–**	**(29)**
Exchange differences	**5,325**	**282**	**155**	**5,762**
At 31 December 2016	**279,082**	**13,315**	**9,582**	**301,979**
Accumulated depreciation				
At 1 January 2015	9,466	3,239	3,150	15,855
Depreciation for the year	8,978	2,520	1,680	13,178
Amortisation for the year	3,407	–	–	3,407
Written off/disposals	–	(51)	–	(51)
Exchange differences	458	80	63	601
At 31 December 2015 and at 1 January 2016	**22,309**	**5,788**	**4,893**	**32,990**
Disposal of subsidiaries	**–**	**(377)**	**(363)**	**(740)**
Depreciation for the year	**9,395**	**2,677**	**1,659**	**13,731**
Amortisation for the year	**3,407**	**–**	**–**	**3,407**
Written off/disposals	**–**	**(29)**	**–**	**(29)**
Exchange differences	**977**	**146**	**107**	**1,230**
At 31 December 2016	**36,088**	**8,205**	**6,296**	**50,589**
Net book value				
At 31 December 2016	**242,994**	**5,110**	**3,286**	**251,390**
At 31 December 2015	251,448	6,648	4,629	262,725

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

17. INVESTMENT PROPERTIES

	2016 *RMB'000*	2015 *RMB'000*
At beginning of year	**570,058**	556,533
Changes in fair value	**10,051**	6,736
Exchange differences	**8,261**	6,789
At end of year	**588,370**	570,058

Details of assessment of the fair value are set out in note 25.

18. PROPERTIES UNDER TIANHE PROJECT

Details of the project are set out in note 34. The following table reconciles the movement of the carrying amount of costs of the Tianhe Project during the year:

	2016 *RMB'000*	2015 *RMB'000*
At beginning of year	**786,168**	777,090
Additions of other development costs	**37,495**	9,078
Disposal	**(823,663)**	–
At end of year	**–**	786,168

19. GOODWILL

	2016 *RMB'000*	2015 *RMB'000*
Cost		
At beginning of year	**68,664**	68,664
At end of year	**68,664**	68,664
Accumulated impairment loss		
At beginning of year	**55,110**	55,110
At end of year	**55,110**	55,110
Net book value		
At end of year	**13,554**	13,554

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

19. GOODWILL (continued)

Goodwill acquired through business combinations has been allocated to the following CGU, namely property development, for impairment testing:

Project	Attributable CGU	**2016** *RMB'000*	2015 *RMB'000*
Zhoutouzui Project	Property development *(Note)*	**13,554**	13,554

Note: Zhoutouzui Project refers to the development project located at Zhoutouzui, Haizhu District, Guangzhou, the PRC. The Group acquired 51% interest in the Zhoutouzui Project in 2006 and further increased its interest to 100% through a step-up acquisition which was completed on 4 June 2007. The carrying amount of property development costs in relation to the Zhoutouzui Project is included in properties under development (as disclosed in note 23).

Impairment test for goodwill

The goodwill relates to the CGU within the operational segment of property development. The recoverable amount of the CGU is determined using value-in-use calculation. This calculation uses cash flow projection based on financial budget of this CGU which is approved by management covering a five-year period with key assumptions including revenue, direct costs and other operating expenses being referenced to past performance and management's reasonable expectations on the business outlook of this CGU.

Key assumptions are as follows:

CGU	Discount rate	Pre-tax operating margin
2016		
Property development	**8.00%**	**51.20%**
2015		
Property development	8.00%	31.70%

Discount rate is based on the Group's management's assessment of specific risks related to the CGU. Operating margin is based on the management's perception of the market outlook.

No impairment loss is provided for the year ended 31 December 2016 (2015: Nil). The Directors performed an impairment test for the goodwill and concluded that the CGU of property development in relation to the Zhoutouzui Project demonstrates sufficient cashflow projection that justifies the carrying value of the goodwill. Hence, the management did not consider impairment of goodwill necessary.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

20. AVAILABLE-FOR-SALE INVESTMENT

	2016	2015
	RMB'000	*RMB'000*
Investment funds, at fair value	**10,000**	–

The available-for-sale investment is denominated in RMB and there is no public market for the investments. The fair value is based on net asset value of the investment funds at the end of the reporting period. During the year ended 31 December 2016, no change in fair value was recognized in other comprehensive income and accumulated in the investment revaluation reserve.

21. JOINT ARRANGEMENT

廣州市譽城房地產開發有限公司 (Guangzhou Yucheng Real Estate Development Company Limited)* ("**GZ Yucheng**"), a sino-foreign cooperative company with limited liabilities established in the PRC for a renewal term of 15 years commencing on 31 March 2003 by Guangzhou Zhoutouzui Development Limited ("**GZ Zhoutouzui**") and is accounted for as a joint operation in the Group's financial statements. The Group's accounts for its share of assets, liabilities and profit or loss in relation to the joint operation in accordance with the policy are set out in note 4(c). Details of GZ Yucheng are as follows:

Place and date of establishment	**Registered capital**	**Paid-up capital**	**Principal activity**
PRC, 31 March 2003	US$100,000,000	US$100,000,000 (approximately RMB656,641,000)	Property development in the PRC

Under the terms of the agreement entered into by the parties, (i) GZ Zhoutouzui is obligated for the investment of 100% of the capital of and provided financial support to GZ Yucheng; and (ii) another party, 廣州港集團有限公司 (Guangzhou Port Group Co., Limited) ("**Port Authority**"), is entitled to 28% of the total gross floor area of the project upon completion of the proposed development and after which, Port Authority will not be entitled to any profit or loss generated by GZ Yucheng; and (iii) GZ Zhoutouzui is entitled to 72% of the total gross floor area of the project upon completion of the proposed development and the entire profit or loss to be generated or incurred by GZ Yucheng. GZ Zhoutouzui is also entitled to all assets other than the 28% properties to be allocated to Port Authority, and obliged to bear all the liabilities of GZ Yucheng under the arrangement.

* *English name for identification purpose only*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

22. CONSIDERATIONS RECEIVABLE

a. Disposal of Tianhe Project

	Gross consideration *RMB'000*	(Settled)/ Paid *RMB'000*	**2016** ***RMB'000***	2015 *RMB'000*
Gross sale consideration for the equity interest plus net assets of Huan Cheng (net of relocation cost of fire-station borne by the Group)	1,128,273	(988,273)	**140,000**	140,000
Less: Development costs and finance costs borne by the Group	(20,000)	20,000	–	(35,000)
Amortised cost, amount due within one year	1,108,273	(968,273)	**140,000**	105,000

The receivable relates to the final instalments receivable from the purchaser, Hainan Haikong Realty Company Limited, for the disposal of the equity interest in Guangzhou Huan Cheng Real Estate Development Company Limited ("**Huan Cheng**"), the developer of Tianhe Project, that is unsecured and interest-free. The amount of approximately RMB140,000,000 (2015: RMB105,000,000) represents the final instalment that was fully settled in January 2017.

b. Disposal of Yongzhou Project

	Gross consideration *RMB'000*	Settled *RMB'000*	**2016** ***RMB'000***	2015 *RMB'000*
Gross sale consideration for the equity interest plus net assets of Yongzhou Real Estate	277,223	(139,822)	**137,401**	–
Amortised cost, amount due within one year	277,223	(139,822)	**137,401**	–

The receivable relates to the final instalment receivable from the purchaser, 廣州市天譽房地產開發有限公司 (Guangzhou Tianyu Real Estate Development Company Limited)*, for the disposal of the 70% equity interest in 永州市天譽房地產開發有限公司 (Yongzhou Tianyu Real Estate Development Company Limited), the developer of Yongzhou Project, that is unsecured and interest-free. The final instalment was fully settled in January 2017.

* *English name for identification purpose only*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

23. PROPERTIES HELD FOR/UNDER DEVELOPMENT

Properties held for/under development in the PRC are as follows:

	2016	2015
	RMB'000	*RMB'000*
Land use rights *(Note)*	**2,205,151**	2,091,426
Premium paid for the acquisition of the interest of the land, demolition and settlement costs	**649,883**	637,822
Construction costs	**4,214,393**	2,637,548
Others	**1,062,760**	809,040
	8,132,187	6,175,836
Less: Accumulated write-down in value	**–**	(16,559)
	8,132,187	6,159,277
Representing:		
Properties held for development	**161,160**	–
Properties under development	**7,971,027**	6,159,277
	8,132,187	6,159,277

Note:

Land use rights comprise cost of acquiring rights to use of lands located in the PRC for property development.

The following table reconciles the movement of the carrying amount of properties held for/under development during the year:

	2016	2015
	RMB'000	*RMB'000*
At beginning of year	**6,159,277**	3,828,284
Additions		
– Capitalisation of depreciation of property, plant and equipment	**139**	92
– Capitalisation of finance costs	**214,197**	270,486
– Land and other development costs	**2,298,695**	2,395,868
	2,513,031	2,666,446
Completed properties transferred to properties held for sale	**(540,121)**	(327,274)
Impairment loss charged to profit or loss	**–**	(8,179)
At end of year	**8,132,187**	6,159,277

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

24. PROPERTIES HELD FOR SALE

	2016 RMB'000	2015 RMB'000
Completed properties held for sale	**177,228**	189,695
Less: Impairment loss charged to profit or loss	–	(11,845)
	177,228	177,850

All completed properties held for sale as at 31 December 2016 were located in the PRC.

25. ANALYSIS OF PROPERTIES

(a) The analysis of the net book value of completed properties is as follows:

	2016 RMB'000	2015 RMB'000
Land lease in the PRC and Hong Kong		
– Investment properties	**588,370**	570,058
– Leasehold land and building	**242,994**	251,448
– Properties held for sale	**177,228**	177,850
	1,008,592	999,356

(b) All of the Group's completed properties were revalued as at 31 December 2016 and 31 December 2015. The valuations were carried out by DTZ Debenham Tie Leung Shenzhen Valuation Company Limited – Guangzhou Branch and RHL Appraisal Limited, independent valuers who hold recognised and relevant professional qualifications and have relevant experience in the location and category of the completed properties being valued. The Group's management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each reporting date.

(c) The Group's investment properties and leasehold land and building with carrying amounts as disclosed in note 44 are pledged to secure bank borrowings of the Group, as disclosed in note 33(a), at the end of the reporting period.

(d) For the year ended 31 December 2016, the rental income from investment properties amounted to RMB16,514,000 (2015: RMB18,244,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

25. ANALYSIS OF PROPERTIES (continued)

(e) Fair value

The following table gives information about how the fair values of investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorized (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Nature	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
2016				
Investment properties in Hong Kong	Level 2	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property.	N/A	N/A
Investment properties in the PRC	Level 3	Income capitalization approach The key inputs are: (1) Capitalisation rate; (2) Daily unit rent	(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.75%.	The higher the capitalisation rate, the lower the fair value.
			(b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB416/ sq.m./day for the base level.	The higher the daily unit rent, the higher the fair value.
2015				
Investment properties in Hong Kong	Level 2	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property.	N/A	N/A
Investment properties in the PRC	Level 3	Income capitalization approach The key inputs are: (1) Capitalisation rate; (2) Daily unit rent	(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.75%.	The higher the capitalisation rate, the lower the fair value.
			(b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB400/ sq.m./day for the base level.	The higher the daily unit rent, the higher the fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

25. ANALYSIS OF PROPERTIES (continued)

(e) Fair value (continued)

The fair value of investment properties in the PRC as at 31 December 2016 and 31 December 2015 were measured using valuation techniques with significant unobservable inputs and hence were classified as Level 3 of the fair value hierarchy.

Fair value measurements and valuation processes

In estimating the fair value of the Group's investment properties, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation of the Group's investment properties. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. The Group will first consider and adopt Level 2 inputs where inputs can be derived observable quoted prices in the active market. When Level 2 inputs are not available, the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the board of Directors of the Company.

The movements during the year in the balance of Level 3 fair value measurements are as follows:

	2016	2015
	RMB'000	*RMB'000*
Opening balance (level 3 recurring fair value)	**448,000**	447,000
Gains: included in other gains	**8,000**	1,000
Closing balance (level 3 recurring fair value)	**456,000**	448,000

26. LOAN TO A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

The balance is unsecured, interest bearing at floating rate according to 110% of the 1-year lending rate quoted by the People's Bank of China and repayable in 2017.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

27. TRADE AND OTHER RECEIVABLES

	Notes	2016 RMB'000	2015 RMB'000
Current or less than 1 month		**588**	881
1 to 3 months		**1,741**	462
More than 3 months but less than 12 months		**629**	589
More than 1 year		**387**	114
Trade receivables from tenants and property occupants, net of impairment	*(a), (b)*	**3,345**	2,046
Refundable earnest money or payments made in project acquisitions		**156,463**	–
Progress payments made on acquisition of projects		**454,900**	
Receivable from district government for resettlement housing in a project		**52,272**	–
Unpaid up capital to be contributed by a non-controlling shareholder of a subsidiary		**13,800**	–
Refundable construction costs		**57,730**	19,159
Tender deposit in development project		**30,800**	30,800
Prepaid construction costs		**240,032**	110,636
Prepaid finance costs		**9,750**	141
Prepaid business taxes and surcharges		**280,866**	200,305
Maintenance funds paid on behalf of properties owners		**45,943**	41,161
Interest receivable on bank deposits/short-term investments		**8,706**	4,941
Other deposits, prepayments and other receivables	*(b)*	**121,523**	86,785
		1,476,130	495,974

Notes:

(a) The Group has a policy of allowing an average credit period of 8 to 30 days to its trade customers. The Group's formal credit policy in place is to monitor the Group's exposure to credit risk through regular reviews of receivables and follow-up actions taken on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

27. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

(b) The analysis of the Group's trade receivables which are past due but not impaired is as follows:

	2016	2015
	RMB'000	*RMB'000*
1 to 3 months past due	**1,741**	462
More than 3 months but less than 12 months past due	**629**	589
More than 1 year past due	**387**	114
	2,757	1,165

The Group's trade receivables which are neither past due nor impaired relate to a number of tenants of the Group's properties for whom there is no recent history of default.

The balances of other classes within the trade and other receivables category are neither past due nor impaired. They mainly comprise progress payments made on acquisition of projects, refundable earnest money or payments made in project acquisitions, receivable from district government for resettlement housing in a project, prepaid construction costs paid to contractors on existing projects, prepaid taxes and maintenance funds paid to government on behalf of property buyers. Management considers that the credit risk associated with these receivables is minimal.

The movements of impairment loss on trade receivables of the Group are as follows:

	2016	2015
	RMB'000	*RMB'000*
At beginning of year	**1,403**	1,193
Impairment loss recognised	**167**	292
Bad debts recovered	**–**	(82)
At end of year	**1,570**	1,403

28. SHORT-TERM INVESTMENTS

The investment in saving plans issued by bank on mainland China were uplifted and there was no balance held as at 31 December 2016 (2015:RMB460,000,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

29. RESTRICTED AND PLEDGED DEPOSITS

	Notes	2016 RMB'000	2015 RMB'000
To secure for:			
– letter of credit issued by banks to guarantee repayment of money market loans	*(a)*	**375,382**	652,010
– the payment of construction cost of development projects	*(b)*	**611,616**	261,754
– others		**292**	8,965
		987,290	922,729

Notes:

(a) As at 31 December 2016, to secure two back-to-back letters of credits issued by a local bank in the PRC to a Macau-based bank to guarantee repayment of the latter's money market loan facility granted to a subsidiary in a total of HK$420,240,000 (approximately RMB375,905,000), bank deposits with an aggregate balance of RMB375,382,000 were placed in the local bank in the PRC.

(b) The balance represents deposits received from buyers of pre-sold properties. These deposits shall be released only to pay construction costs of the development projects.

30. CASH AND CASH EQUIVALENTS

	2016 RMB'000	2015 RMB'000
Short-term bank deposits	**437,473**	652,010
Cash at bank and in hand	**2,344,257**	653,974
	2,781,730	1,305,984
Less: Restricted and pledged deposits *(Note 29)*	**(987,290)**	(922,729)
	1,794,440	383,255

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

31. TRADE AND OTHER PAYABLES

	2016 *RMB'000*	2015 *RMB'000*
Current or less than 1 month	–	1,485
1 to 3 months	**1,012**	477
More than 3 months but less than 12 months	**5**	5
More than 12 months	**2**	198
Total trade payables	**1,019**	2,165
Construction costs payable	**875,480**	648,437
Tender receivable from the suppliers	**49,287**	49,397
Land cost payable	–	352,511
Receipts in advance, rental and other deposits from buyers, customers and/or tenants	**16,745**	16,404
Receipts in advance from government on a project clearance	**68,297**	54,630
Compensation payable	**26,250**	11,250
Accrued business taxes and surcharges	**62,840**	19,685
Interest payable on bank and other borrowings	**3,542**	6,472
Other accrued expenses and other payables	**87,065**	39,782
	1,190,525	1,200,733

32. FINANCIAL GUARANTEE CONTRACT

(a) During the year ended 31 December 2016 and 31 December 2015, the Company provided corporate guarantees to secure for the repayment of a third party and subsidiaries' borrowings. The Directors consider that the exposure of these guarantees is minimal, and therefore no liabilities associated with the financial guarantee contracts are recognised as at 31 December 2016 and 31 December 2015.

(b) As at 31 December 2016, the Group provides guarantees to the extent of approximately RMB3,406,943,000 (2015: RMB1,178,900,000) in respect of credit facilities granted by certain banks relating to the mortgage loans arranged for some buyers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these buyers, the Group is responsible for repaying the outstanding mortgage principal, accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take legal action against the defaulted buyers for losses and take possession of the related properties from the defaulted buyers. Such guarantees shall terminate upon delivery of properties and issuance of relevant property ownership certificates to the property buyers. The management, with its assessment of the current and outlook of the market, perceives that the possibility of default in mortgage loans by home buyers is remote and, in the event of default, the liabilities caused to the Group will be minimal as the loss will be adequately mitigated by the proceed recovered from the sales of the repossessed properties. Accordingly, no provision is made in the accounts for the financial guarantees.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSET AND LIABILITIES

	Notes	2016 RMB'000	2015 RMB'000
Bank and other borrowings			
Secured bank borrowings:			
(i) term loans, revolving loans and construction loans	(a)	2,033,634	538,483
(ii) money market loans	(b)	375,905	891,591
Other secured borrowings:			
(i) trust loan	(c)	–	500,000
(ii) secured loan	(d)	486,209	434,824
(iii) secured bonds	(d)	35,455	31,739
Unsecured borrowings:			
(i) unsecured bonds	(e)	524,860	251,185
(ii) other borrowings	(f)	–	112,000
		3,456,063	2,759,822
At the end of the year, the maturity profile of the bank and other borrowings are as follows:			
On demand or within one year		1,067,634	2,013,166
More than one year, but not exceeding two years		685,891	578,563
More than two years, but not exceeding five years		1,153,908	–
After five years		548,630	168,093
		3,456,063	2,759,822
Amounts due within one year included in current liabilities		(1,067,634)	(2,013,166)
Amounts due after one year		2,388,429	746,656
Derivative financial asset			
– Company Redemption Rights on Unsecured Bonds	(e)	(9,022)	(37)
Derivative financial liabilities			
– Exchange Rights and Extension Rights on Secured Bonds	(d)	11,177	5,877
– Holder Redemption Rights on Unsecured Bonds	(e)	2,182	6,696
		13,359	12,573
Amounts due within one year included in current liabilities		(11,177)	–
Amounts due after one year		2,182	12,573

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSET AND LIABILITIES (continued)

Notes:

(a) At 31 December 2016, all the bank borrowings are secured by mortgages of ownership titles of properties under development and investment properties with an aggregate carrying amount of approximately RMB2,785,621,000 (2015: RMB3,024,205,000). The bank borrowings carry interest at variable market rates ranging from 2.50% to 6.5% per annum (2015: 2.75% to 5.23% per annum) as at 31 December 2016. In addition to the mortgages, the Company provides corporate guarantee to secure for the repayment of a term loan and revolving loans with carrying value of approximately RMB149,310,000 (2015: RMB117,843,000) A construction loan of approximately RMB1,223,400,000 (2015: RMB420,640,000) is secured by the personal guarantee provided by Mr. YU Pan.

On 28 June 2016, a commercial bank loan from the Singapore branch of a foreign bank was drawn down by the Company in principal amount US$60,000,000 (approximately RMB416,220,000) which is secured by personal guarantee provided by Mr. YU Pan and legal charge over 1,587,168,407 shares of the Company beneficially owned by Mr. YU Pan. The bank loan was amortised at the effective interest method by applying an effective interest rate at 13.81%. The loan was repayable in a lump sum on June 2018.

Other than two term loans respectively of approximately RMB68,805,000 (2015: RMB67,575,000) which is repayable by monthly instalments until 2033 and RMB269,076,000 by monthly instalments until 2026, bank borrowings in an aggregate amount of approximately RMB1,695,753,000 (2015: RMB470,908,000) are repayable in the years between 2017 and 2019.

As at 31 December 2016, the carrying values of the aforesaid bank borrowings are RMB2,033,634,000 (2015: RMB538,483,000).

(b) As at 31 December 2016, the money market loans in aggregate of approximately RMB375,905,000 (2015: RMB891,591,000) extended by bank in Macau were secured by bank deposits of RMB375,382,000. The money market loans carry interest at a fixed rate of 1.9% per annum (2015: 1.32% to 2.70% per annum).

(c) The trust loan due to a financial institution was fully repaid on 18 January 2016.

(d) In July 2015, a lender extended a loan to the Company of HK$560,000,000 (RMB500,920,000) (the "**Loan**") and subscribed for convertible bonds issued by the Company in an aggregate principle amount of HK$40,000,000 (RMB35,780,000) (the "**Convertible Bonds**"). The Loan bears interests at 10% per annum. The Loan has a term of two years and is repayable on 22 July 2017.

The Convertible Bonds bear interests on the outstanding principal amount at 10% per annum which is payable every three (3) months. Pursuant to the terms and conditions of the instrument dated 23 July 2015, the convertible bondholders shall have the right to convert all or any part of the principal amount of the Convertible Bonds into shares of the Company at an adjusted conversion price of HK$1.014 per share (subject to adjustment) at any time on and after the issue date up to the maturity date of the Convertible Bonds. The Convertible Bonds has a term of two (2) years from the issue date and extendable for a further two (2) years by the holders of the Convertible Bonds.

The Loan and the Convertible Bonds are amortised using the effective interest method by applying the effective interest rates of 16.13% and 16.10% per annum respectively.

Pursuant to the two share charges both dated 23 July 2015, Fortunate Start Investments Limited, a wholly owned subsidiary of the Company, has charged all its rights, title and interest in GZ Zhoutouzui in favour of the lender to secure the repayment of the Loan and the Convertible Bonds.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSET AND LIABILITIES (continued)

Notes: (continued)

(d) (continued)

As at 31 December 2016, the carrying values of the Loan and the Convertible Bonds are RMB486,209,000 and RMB35,455,000 (2015:RMB434,824,000 and RMB31,739,000) respectively. The movements of the Loan and Convertible Bonds are as follows:

	Loan	Convertible Bonds	**Total**
	RMB'000	*RMB'000*	***RMB'000***
At 31 December 2015 and 1 January 2016	434,824	31,739	**466,563**
Accrued interest expense	69,187	4,943	**74,130**
Interest paid	(48,279)	(3,396)	**(51,675)**
Exchange differences	30,477	2,169	**32,646**
At 31 December 2016 – Amounts due within one year	486,209	35,455	**521,664**

(e) As at 31 December 2016, the Company has issued to some professional investors unsecured bonds respectively with the principal amounts in aggregate of HK$290,000,000 (RMB259,405,000) due on 12 September 2024 (the "**2024 Bonds**"), HK$80,000,000 (RMB71,560,000) due on 12 September 2025 (the "**2025 Bonds**"), HK$30,000,000 (RMB26,835,000) due on 12 September 2026 (the "**2026 Bonds**"), HK$570,000,000 (RMB509,865,000) due on 14 November 2031 (the "**2031 Bonds**"), HK$960,000,000 (RMB858,720,000) due on 14 November 2032 (the "**2032 Bonds**"), and HK$240,000,000 (RMB214,680,000) due on 14 November 2033 (the "**2033 Bonds**"). The 2024 Bonds, 2025 Bonds and 2026 Bonds carry coupon interest at 7.5%, whilst the 2031 Bonds, 2032 Bonds and 2033 Bonds carry coupon interest at 8.0% per annum. Interests chargeable on the bonds were payable in advance upon the issue of the bonds. In addition to the coupon interests, the bonds are subject to an annual interest of 0.1% per annum payable annually on 14 October (for the 2024 Bonds, 2025 Bonds and 2026 Bonds) and 14 November (for the 2031 Bonds, 2032 Bonds and 2033 Bonds) until maturity. The bonds were amortised at the effective interest method by applying the effective interest rate ranging from 11.75% to 13.10% per annum.

All Bondholders have the right to redeem the bonds either after 8th anniversary date from the issue of the bonds or at any time with agreed notice period. The Company has the right to redeem the 2031 Bonds, 2032 Bonds and 2033 Bonds on specific dates or periods.

The unsecured bonds in aggregated principal amount of HK$100,000,000 carried at RMB83,092,000 as at 31 December 2015 and due in 2016 (the "**2016 Bonds**") were fully repaid during the year.

During the year, the Company has completed placings of unsecured bonds to some professional investors in an aggregate principal amount of HK$100,000,000 (RMB89,450,000) due on 4 July 2019 (the "**2019 Bonds (A)**"). The 2019 Bonds (A) carrying interest at the actual rate of 10% per annum, which are payable quarterly in arrears, and mature in 2019. The 2019 Bonds (A) were amortised at the effective interest method by applying the effective interest rate of 14.30% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSET AND LIABILITIES (continued)

Notes: (continued)

(e) (continued)

In November 2016, the Company entered into a placing agreement with an arranger and bookrunner in relation to the placing of the unsecured and unsubordinated bonds up to HK$200,000,000 due in 2019 (the "**2019 Bonds (B)**"). During the year, the Company has issued the 2019 Bonds (B) in an aggregate principal amount of HK$45,400,000 (approximately RMB40,610,000). The 2019 Bonds (B) carry interests at the actual rate of 5% per annum, payable quarterly in arrears, and will mature in 2019. The 2019 Bonds (B) were amortised at the effective interest method by applying the effective interest rate of 10.75% per annum.

The movements of the bonds are as follows:

	2016 Bonds	2019 Bonds (A)	2019 Bonds (B)	2024 Bonds	2025 Bonds	2026 Bonds	2031 Bonds	2032 Bonds	2033 Bonds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Nominal value	–	100,000	45,400	290,000	80,000	30,000	570,000	960,000	240,000	2,315,400
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Nominal value	–	89,450	40,610	259,405	71,560	26,835	509,865	858,720	214,680	2,071,125
Liability component of carrying amount										
At 31 December 2014 and 1 January 2015	72,595	–	–	24,923	–	–	6,939	–	–	104,457
Issue of the bonds, net of transaction costs	–	–	–	143,019	–	–	396,348	16,011	–	555,378
Discounts and interest paid	(7,995)	–	–	(91,763)	–	–	(331,817)	(13,574)	–	(445,149)
Accrued interest expense	13,817	–	–	5,654	–	–	4,307	–	–	23,778
Exchange differences	4,675	–	–	4,324	–	–	3,685	37	–	12,721
At 31 December 2015 and 1 January 2016	83,092	–	–	86,157	–	–	79,462	2,474	–	251,185
Issue of the bonds, net of transaction costs	–	76,597	33,819	–	64,374	25,294	–	760,682	211,869	1,172,635
Repayment	(83,982)	–	–	–	–	–	–	–	–	(83,982)
Discounts and interest paid	(3,152)	(2,170)	–	(248)	(40,753)	(16,856)	(498)	(635,189)	(179,952)	(878,818)
Accrued interest expense	3,844	5,495	440	11,336	1,016	3	9,988	5,432	10	37,564
Exchange differences	198	3,618	862	6,306	1,549	215	5,793	7,333	402	26,276
At 31 December 2016	–	83,540	35,121	103,551	26,186	8,656	94,745	140,732	32,329	524,860

(f) The unsecured loan advanced from a third party was fully repaid.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

34. CONSIDERATION FROM DISPOSAL OF TIANHE PROJECT

The balance of RMB990,360,000 carried forward from 2015 represented the considerations received from the disposal of Tianhe Project (the "**Disposal**"). The Disposal was pursuant to a disposal agreement for the transfer of the entire equity interest in Huan Cheng, the project company for the development of the Tianhe Project, entered into between the Company, a former subsidiary and HNA Hotel on 26 July 2010. Despite of the completion of the Disposal Agreement on 20 September 2010, under the Disposal Agreement, the Company had obligations to complete the Tianhe Project within a specified timeline. The Project was completed on April 2016 and the entire consideration receivable from the disposal was recognized as revenue from the sale of properties for the year.

35. DEFERRED TAX ASSETS/LIABILITIES

Movements of the deferred tax assets/liabilities are as follows:

			Revaluation of properties			
	Land appreciation tax	Tax losses	Leasehold land and building	Investment properties	Properties under development	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	–	–	6,813	85,627	76,608	169,048
(Credit)/charged to profit or loss	–	–	(517)	250	–	(267)
At 31 December 2015 and at 1 January 2016	**–**	**–**	**6,296**	**85,877**	**76,608**	**168,781**
(Credit)/charged to profit or loss	**(20,727)**	**(36,626)**	**(259)**	**2,000**	**–**	**(55,612)**
At 31 December 2016	**(20,727)**	**(36,626)**	**6,037**	**87,877**	**76,608**	**113,169**

As at 31 December 2016, the Group have estimated unutilised tax losses of approximately RMB321,486,000 (2015: RMB370,489,000) for offsetting against future assessable profits. No deferred tax asset has been recognised in respect of these balances due to the unpredictability of future profit streams. The unrecognised tax losses include a balance of RMB140,778,000 (2015: RMB100,053,000) which may be carried forward indefinitely, and the remaining balance of RMB180,708,000 (2015: RMB270,436,000) will expire in five years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

36. SHARE CAPITAL

(a) Authorised and issued share capital

	Number of shares	Nominal value	Equivalent nominal value
	Ordinary share capital of HK$0.01 each	Ordinary share capital of HK$0.01 each	of ordinary share capital of HK$0.01 each
	'000	*HK$'000*	*RMB'000*
Authorised:			
At 31 December 2015 and 2016	**30,000,000**	**300,000**	**311,316**
Issued and fully paid:			
Ordinary shares of HK$0.01 each			
At 31 December 2015 and at 1 January 2016	**2,216,531**	**22,165**	**21,068**
Issue and allotment of placing shares *(Note)*	**400,000**	**4,000**	**3,388**
At 31 December 2016	**2,616,531**	**26,165**	**24,456**

Note:

Pursuant to a placing agreement entered by the Company with a placing agent on 17 May 2016 in relation to the placing of 400,000,000 shares of the Company at a price of HK$0.48 per share (the "**Placing**"), the Placing was completed on 6 June 2016 and 400,000,000 shares were issued and allotted to seven placees, raising proceeds, net of direct expenses, totaling approximately HK$187,500,000 (RMB158,793,000).

(b) Capital management policy

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it by adjusting applicable policies on dividend pay-out, return to shareholders and debt and equity raising or redemption, in the light of changes in economic conditions. There have been no material changes in these objectives and policies or processes during the current and prior years.

The Company monitors capital using gearing ratio, which is calculated as net debt to the summation of capital and net debt. Net debt includes bank and other borrowings, derivative financial liabilities and loans from non-controlling shareholders of a subsidiary less cash and cash equivalents and restricted bank deposits backing up the money market loans. Capital represents equity attributable to owners of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

36. SHARE CAPITAL (continued)

(b) Capital management policy (continued)

The gearing ratio as at the end of the reporting period is calculated based on the following:

	2016 *RMB'000*	2015 *RMB'000*
Total debt	**3,469,422**	2,772,395
Less: restricted bank deposits backing up the money market loans	**(375,382)**	(652,010)
Less: cash and cash equivalents	**(1,794,440)**	(383,255)
Net debt	**1,299,600**	1,737,130
Equity attributable to owners	**1,765,109**	1,503,940
Capital plus net debt	**3,064,709**	3,241,070
Gearing ratio (Net debt/Capital plus net debt)	**42.4%**	53.6%

37. RESERVES

	Share premium *RMB'000*	Contributed surplus reserve *RMB'000*	Share-based payment reserve *RMB'000*	Property revaluation reserve *RMB'000*	Merger reserve *RMB'000*	Statutory reserves *RMB'000*	Foreign exchange reserve *RMB'000*	Other/ capital reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2015	1,507,182	16,116	12,152	34,499	(293,095)	6,471	(412)	743	405,330	1,688,986
Recognition of equity-settled share-based payment expenses	–	–	6,546	–	–	–	–	–	–	6,546
Reallocation of lapsed options from share-based payment reserve to retained profits	–	–	(8,122)	–	–	–	–	–	8,122	–
Exchange differences arising on foreign operations	–	–	–	–	–	–	(891)	–	–	(891)
Loss for the year	–	–	–	–	–	–	–	–	(211,769)	(211,769)
As at 31 December 2015 and at 1 January 2016	**1,507,182**	**16,116**	**10,576**	**34,499**	**(293,095)**	**6,471**	**(1,303)**	**743**	**201,683**	**1,482,872**
Issue of shares: Share placing	**159,217**	–	–	–	–	–	–	–	–	**159,217**
Share issue expenses	**(3,812)**	–	–	–	–	–	–	–	–	**(3,812)**
Recognition of equity-settled share-based payment expenses	–	–	**9,596**	–	–	–	–	–	–	**9,596**
Reallocation of lapsed options from share-based payment reserve to retained profits	–	–	**(994)**	–	–	–	–	–	**994**	–
Exchange differences arising on foreign operations	–	–	–	–	–	–	**(138)**	–	–	**(138)**
Transfer among reserves	–	–	–	**(34,499)**	–	–	–	–	**34,499**	–
Profit for the year	–	–	–	–	–	–	–	–	**92,918**	**92,918**
At 31 December 2016	**1,662,587**	**16,116**	**19,178**	–	**(293,095)**	**6,471**	**(1,441)**	**743**	**330,094**	**1,740,653**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

37. RESERVES (continued)

(a) **The following describes the nature and purpose of each reserve within owners' equity:**

Share premium	The amount relates to subscription for share capital in excess of nominal value. The application of the share premium account is governed by clause 150 of the Company's bye-laws and the Companies Act 1981 of Bermuda.
Contributed surplus reserve	The amount arose from the capital reduction, cancellation of share premium and part of which has been set-off against the accumulated losses of the Company as at 31 December 2004 pursuant to a capital re-organisation. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its owners out of the contributed surplus reserve.
Share-based payment reserve	The reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees and non-employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 4(o).
Property revaluation reserve	Gains/losses arising on revaluing the identifiable assets and liabilities of existing subsidiaries when the Group further acquired the equity interest in the subsidiaries from non-controlling shareholders prior to 1 January 2007.
Merger reserve	The amount represents the difference between the fair value of combined capital of the Company and the carrying value of the assets and liabilities of the subsidiaries transferred to the Group pursuant to the acquisition of 100% interests in Long World Trading Limited.
Statutory reserves	In accordance with relevant rules and regulations concerning foreign investment enterprise established in the PRC and the articles of association, PRC subsidiaries of the Company were required to make appropriations from net profit to the reserve fund, staff and workers' bonus and welfare fund and enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions are made to investors. The percentage of profits to be appropriated to the above three funds are solely determined by the board of directors, except that being a wholly foreign-owned enterprise, transfer of 10% of the net profit for each year to the statutory reserves is mandatory until the accumulated total of the fund reaches 50% of its registered capital. During the current and prior years, the Group has not made any appropriations to the staff and workers' bonus and welfare fund and enterprise expansion fund.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

37. RESERVES (continued)

(a) **The following describes the nature and purpose of each reserve within owners' equity: (continued)**

Foreign exchange reserve	The amount represents gains/losses arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 4(n).
Capital reserve	The amount represents the portion of contribution from the non-controlling shareholders of a subsidiary attributable to owners of the Company.

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

(a) 2005 Scheme

Pursuant to a resolution passed on 4 August 2005, a share option scheme was adopted (the "**2005 Scheme**").

The Company operates the 2005 Scheme for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2005 Scheme include the Directors and other employees of the Group. The 2005 Scheme became effective on 5 August 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the 2005 Scheme, the Directors are authorised, at their absolute discretion, to invite any employee (including the executive and nonexecutive Directors), executive or officer of any member of the Group or of any entity in which the Group holds equity interest and any supplier, consultant, adviser or customer of the Group or of any entity in which the Group holds equity interest who is eligible to participate in the 2005 Scheme, to take up options to subscribe for shares in the Company. Each option gives the holder the right to subscribe or one ordinary share in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of adoption of the 2005 Scheme.

The Company may seek approval of the shareholders in general meeting for refreshing the 10% limit under the 2005 Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10%. of the total number of shares in issue as at the date of approval of the limit. Options previously granted under the 2005 Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the other scheme(s) or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

Notwithstanding aforesaid in this paragraph, the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(a) 2005 Scheme (continued)

The total number of Company's shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1%. of the total number of shares in issue at the offer date (the "**Individual Limited**"). Any further grant of options in excess of the Individual Limit must be subject to the shareholders' approval in general meeting with such participant and his, her or its associates abstaining from voting.

The exercise price in respect of any particular option shall be such price as determined by the board of Directors (the "**Board**") in its absolute discretion at the time of the making of the offer but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the offer date; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the offer date; and (iii) the nominal value of the shares in the Company.

The offer of a grant of share options must be accepted not later than 21 days after the date of the offer, upon payment of a consideration of HK$1.00 by the grantee. The exercise period of the share options granted is determined by the Board, save that such period shall not be more than a period of ten years from the date upon which the share options are granted or deemed to be granted and accepted.

(b) 2015 Scheme

The 2005 Scheme expired on 3 August 2015. Therefore, the Company has adopted a new share option scheme on 9 June 2015 (the "**2015 Scheme**").

The Company operates the 2015 Scheme for the purposes of continuing to provide incentives or rewards to eligible participants for contribution they have made or may make to the Group and/or any entity/entities in which the Group holds any entity interest (the "**Invested Entity**"). The Board may at its discretion, grant share options to any of the eligible participants. Eligible participants of the 2015 Scheme include (i) any employee or proposed employee (whether full time or part time), and including executive directors; and (ii) any directors (including executive, non-executive and independent non-executive directors) of any member of the Group or any Invested Entity, and for the purpose of the 2015 Scheme, share options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. The 2015 Scheme became effective on 9 June 2015 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares available for issue upon exercise of all options to be granted under the 2015 Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of adoption of the 2015 Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) 2015 Scheme (continued)

The Company may seek approval of the shareholders in general meeting for refreshing the 10% limit under the 2015 Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the 2015 Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit. Options previously granted under the 2015 Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the other scheme(s) or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

Notwithstanding aforesaid in this paragraph, the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 Scheme and any other share option schemes of the Company must not exceed, in aggregate, 30% of the total number of shares in issue from time to time.

The total number of Company's shares issued and to be issued upon exercise of the options granted and to be granted to each participant (including exercised, cancelled and outstanding options) under the 2015 Scheme and any other share option scheme of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue at the date of grant. Any further grant of options in excess of the aforesaid limit must be subject to the shareholders' approval in general meeting with such participant and his, her or its close associates abstaining from voting.

The exercise price in respect of any particular option shall be such price as determined by the Board in its absolute discretion but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of grant; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

The offer of a grant of share options must be accepted not later than 21 days after the date of the offer, upon payment of a consideration of HK$1.00 by the grantee. The exercise period of the share options granted is determined by the Board, save that such period shall not be more than a period of ten years from the date upon which the share options are granted or deemed to be granted and accepted.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) 2015 Scheme (continued)

Details of the movement of the share options are as follows:

				During the year ended 31 December 2015				During the year ended 31 December 2016			
Date of grant	Exercise period	Adjusted exercise price per share	Number of options outstanding at 1 January 2015	Options granted	Options exercised	Options lapsed/ cancelled	Number of options outstanding at 31 December 2015 and 1 January 2016	Options granted *(Note)*	Options exercised	Options lapsed	Number of options outstanding at 31 December 2016
12 September 2006	13 March 2007 to 31 July 2015	HK$1.2565	29,089,079	–	–	(29,089,079)	–	–	–	–	–
11 August 2011	11 August 2012 to 10 August 2021	HK$0.6714	5,942,929	–	–	–	5,942,929	–	–	–	**5,942,929**
11 August 2011	11 August 2015 to 10 August 2021	HK$0.6714	5,942,930	–	–	–	5,942,930	–	–	–	**5,942,930**
11 August 2011	11 August 2018 to 10 August 2021	HK$0.6714	5,942,932	–	–	–	5,942,932	–	–	–	**5,942,932**
			17,828,791	–	–	–	17,828,791	–	–	–	**17,828,791**
26 June 2015	26 June 2016 to 25 June 2025	HK$1.0820	–	10,439,000	–	(143,000)	10,296,000	–	–	(886,600)	**9,409,400**
26 June 2015	26 June 2017 to 25 June 2025	HK$1.0820	–	10,439,000	–	(143,000)	10,296,000	–	–	(886,600)	**9,409,400**
26 June 2015	26 June 2018 to 25 June 2025	HK$1.0820	–	10,439,000	–	(143,000)	10,296,000	–	–	(886,600)	**9,409,400**
26 June 2015	26 June 2019 to 25 June 2025	HK$1.0820	–	10,439,000	–	(143,000)	10,296,000	–	–	(886,600)	**9,409,400**
26 June 2015	26 June 2020 to 25 June 2025	HK$1.0820	–	10,439,000	–	(143,000)	10,296,000	–	–	(886,600)	**9,409,400**
26 June 2015	26 June 2021 to 25 June 2025	HK$1.0820	–	10,439,000	–	(143,000)	10,296,000	–	–	(886,600)	**9,409,400**
26 June 2015	26 June 2022 to 25 June 2025	HK$1.0820	–	10,366,000	–	(142,000)	10,224,000	–	–	(880,400)	**9,343,600**
			–	73,000,000	–	(1,000,000)	72,000,000	–	–	(6,200,000)	**65,800,000**
			46,917,870	73,000,000	–	(30,089,079)	89,828,791	–	–	(6,200,000)	**83,628,791**
Weighted average exercise price			HK$1.0342	HK$1.0820	–	HK$1.2507	HK$1.0005	–	–	HK$1.0820	**HK$0.9945**
Analysis by category:											
Directors			12,302,907	11,000,000	–	(7,089,810)	16,213,097	–	–	–	**16,213,097**
Other employees			29,401,866	62,000,000	–	(17,786,172)	73,615,694	–	–	(6,200,000)	**67,415,694**
Non-employees			5,213,097	–	–	(5,213,097)	–	–	–	–	**–**
			46,917,870	73,000,000	–	(30,089,079)	89,828,791	–	–	(6,200,000)	**83,628,791**

Note: The fair value of options granted was determined using the binominal (Cox, Ross, Rubinstein) option pricing valuation model by an independent valuer, APAC Asset Valuation and Consulting Limited. The significant inputs into the model were closing share price at the date of grant/valuation date, expected volatility based on past few years historical price volatility of the Company, vesting period of the options, risk-free rate, being the yield of Hong Kong government bonds, life of the options, expiration of the options and expected ordinary dividend.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) 2015 Scheme (continued)

The estimated fair value of each option granted on 12 September 2006 and 11 August 2011 were HK$0.28 and HK$0.42 respectively. The following information is relevant in the determination of the fair value of options granted during the year under the 2005 Scheme:

Option pricing model	Binomial Model
Date of grant	12 September 2006
Closing share price at the date of grant	HK$1.30
Exercise price per share	HK$1.31
Annual risk-free rate	3.66%~3.92%
Expected volatility	35%
Life of the option	9 years
Expected dividend yield	0

Option pricing model	Binomial Model
Date of grant	11 August 2011
Closing share price at the date of grant	HK$0.67
Exercise price per share	HK$0.70
Annual risk-free rate	1.84%
Expected volatility	74%
Life of the option	10 years
Expected dividend yield	0

The share options granted on 12 September 2006 are subject to the following vesting schedules and the vesting condition is that the individual remains a director or an employee of the Group at the time of exercise the options:

Option Exercise Period	Number of share options exercisable
From 13/3/2007 to 31/7/2015	33.00%
From 13/3/2008 to 31/7/2015	33.00%
From 13/3/2009 to 31/7/2015	34.00%
	100.00%

The share options granted on and 11 August 2011 are subject to the following vesting schedules and the vesting condition is that the individual remains a director or an employee of the Group at the time of exercise the options:

Option Exercise Period	Number of share options exercisable
From 11/8/2012 to 10/8/2021	33%
From 11/8/2015 to 10/8/2021	33%
From 11/8/2018 to 10/8/2021	34%
	100%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) 2015 Scheme (continued)

The estimated fair value of each option granted on 26 June 2015 was HK$0.58. The following information is relevant in the determination of the fair value of options granted during the year under the 2015 Scheme:

	2015
Option pricing model	**Binomial Model**
Date of grant	**26 June 2015**
Closing share price at the date of grant	**HK$1.02**
Exercise price per share	**HK$1.082**
Annual risk-free rate	**1.81%**
Expected volatility	**56%**
Life of the option	**10 years**
Expected dividend yield	**Nil**

The share options granted on 26 June 2015 are subject to the following vesting schedules and the vesting condition is that the individual remains a director or an employee of the Group at the time of exercise the options:

Option Exercise Period	**Number of share options exercisable**
From 26/6/2016 to 25/6/2025	14.30%
From 26/6/2017 to 25/6/2025	14.30%
From 26/6/2018 to 25/6/2025	14.30%
From 26/6/2019 to 25/6/2025	14.30%
From 26/6/2020 to 25/6/2025	14.30%
From 26/6/2021 to 25/6/2025	14.30%
From 26/6/2022 to 25/6/2025	14.20%
	100.00%

The fair value of share options granted is recognized as employee costs with a corresponding increase in share-based payment reserve within equity over the relevant vesting periods. The Group recognised RMB9,596,000 (2015: RMB6,546,000) (as disclosed in note 10), as equity-settled share-based payment expenses for the year ended 31 December 2016 in relation to share options granted by the Company.

The exercise price of options outstanding at the end of the year ranged between HK$0.9945 to HK$1.2507. During the year, no option was exercised, hence, no weighted average share price at the date of exercise of option is disclosed. The weighted average fair value of each option granted during the year was HK$0.53 (2015: HK$0.51).

The number of exercisable options as at 31 December 2016 is 21,295,259 (2015: 11,885,859) (granted in 2011 and 2015). The weighted average remaining contractual life of the outstanding options as at 31 December 2016 is 8.20 years (2015: 8.25 years).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit/(loss) before income tax to net cash from operating activities

	Note	2016 RMB'000	2015 RMB'000
Profit/(loss) before income tax		**95,757**	(208,483)
Adjustments for:			
Finance costs		**3,051**	1,813
Finance income		**(32,771)**	(21,198)
Equity-settled share-based payment expenses		**9,596**	6,546
Depreciation of property, plant and equipment		**13,592**	13,086
Amortisation of leasehold land		**3,407**	3,407
Exchange loss, net		**107,090**	76,877
Fair value changes in financial derivative asset/liabilities		**(11,121)**	(2,632)
Impairment loss on trade and other receivables		**167**	210
Gain on disposal of subsidiaries	*(b)*	**(97,285)**	–
Fair value changes in investment properties		**(10,051)**	(6,736)
Write-down of properties under development/properties held for sale		**–**	20,024
Operating loss before working capital changes		**81,432**	(117,086)
Decrease/(increase) in properties under Tianhe Project		**786,168**	(9,077)
Increase in properties under development		**(2,392,906)**	(1,551,395)
Decrease in properties held for sale		**359,460**	263,105
Increase in trade and other receivables		**(981,448)**	(41,019)
Increase in trade and other payables		**112,108**	143,131
Increase in properties pre-sale deposits		**3,595,842**	2,249,035
Consideration will be received from disposal of Tianhe Project and Yongzhou Project		**(1,094,602)**	–
Cash generated from operations		**466,054**	936,694
Income tax paid		**(87,671)**	(83,641)
Net cash from operating activities		**378,383**	853,053

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Disposal of a subsidiary

Disposal of 70% interest in the Yongzhou Project

On 27 September 2016, a subsidiary of the Company, 廣州譽浚諮詢服務有限公司 (GZ Yu Jun Consulting Service Company Limited)*, entered into an agreement with 廣州市天譽房地產開發有限公司 (Guangzhou Tianyu Real Estate Development Company Limited)*, pursuant to which GZ Yu Jun agreed to dispose of its 70% equity interest in 永州房地產開發有限公司 (Yongzhou Tianyu Real Estate Development Company Limited)* ("**YZ Tianyu**"), which is engaged in the development of Yongzhou Project, and YZ Tianyu to repay the shareholder loan owned to GZ Yu Jun by YZ Tianyu. The 70% equity interest was transferred and the shareholder loan repaid at an aggregate consideration of approximately RMB271,510,000, net of direct expenses, on 30 November 2016, resulting in a gain of approximately RMB97,285,000 which was charged in the consolidated profit or loss for the year.

Consideration received:	***RMB'000***
Cash received, net of direct expenses	**271,510**

Analysis of assets and liabilities over which control was lost:	**30 November 2016** ***RMB'000***
Property, plant and equipment	**612**
Properties held for sale	**181,283**
Trade and other receivables	**11,630**
Cash and cash equivalents	**13,344**
Trade and other payables	**(26,680)**
Prepaid tax/Income tax payable	**(11,357)**
Properties pre-sale deposits	**(16,021)**
Advanced payments received from customers	**(915)**
Net assets disposed of	**151,896**

Gain on disposal of YZ Tianyu:	***RMB'000***
Consideration received	**271,510**
Net asset disposed of	**(151,896)**
Non-controlling interests	**(22,329)**
Gain on disposal of YZ Tianyu	**97,285**

Net cash inflow arising from the disposal:	***RMB'000***
Cash received	**139,822**
Direct expenses incurred	**(5,713)**
Direct expenses accrued	**4,394**
Cash received, net of direct expenses	**138,503**
Bank balances and cash disposed of	**(13,344)**
	125,159

* *English name for identification purpose only*

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For the year ended 31 December 2016

40. EMPLOYEE RETIREMENT BENEFITS

Defined contribution pension plans

As stipulated by the labour regulations of the PRC, the Group participates in the defined contribution pension plans organised by the municipal and provincial governments for the benefits of its employees in the PRC. The Group is required to make contributions to the plans at ranges of specified percentages of the eligible employees' salaries.

The Group also participates in the Mandatory Provident Fund Scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and have not previously participated in the defined contribution retirement plans as mentioned above. The MPF Scheme is a defined contribution pension scheme administered by independent trustees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the MPF Scheme at the rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (approximately RMB25,000). The Group's contributions vest fully in the employees when contributed into the MPF Scheme.

Under all the plans, the Group has no other obligation for the payment of its employees' retirement and other postretirement benefits other than contributions described above.

41. OPERATING LEASE COMMITMENTS

Lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarters which fall due as follows:

	2016	2015
	RMB'000	*RMB'000*
Within one year	**390**	388

Lessor

At the end of the reporting period, the Group had commitments for future minimum rental receivable under non-cancellable operating leases in respect of commercial properties leased out which fall due as follows:

	2016	2015
	RMB'000	*RMB'000*
Within one year	**12,333**	13,060
Later than one year but within five years	**33,950**	36,838
Later than five years	**13,667**	20,714
	59,950	70,612

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For the year ended 31 December 2016

42. COMMITMENTS

	2016	2015
	RMB'000	*RMB'000*
Expenditure contracted but not provided for in respect of		
– Property construction and development costs	**2,246,094**	1,970,841

43. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2016.

In July 2015, a legal action was raised against GZ Yucheng, the project company of Zhoutouzui Project, by Guangzhou Port Group Carrier Services Co., Limited (廣州港集團客運服務有限公司), awholly-owned subsidiary of Port Authority, to claim for compensation in the amount of RMB20.0 million for the demolition and relocation of occupants of the site of Zhoutouzui Project. The claim was made pursuant to an agreement entered into with Port Authority and GZ Yucheng on 18 September 2001 and as supplemented by an agreement dated 18 December 2003 entered into with Port Authority and GZ Yucheng. Due to a problem about the legal identity of the claimant encountered, on 29 April 2016, the case was withdrawn by the claimant whilst Port Authority initiated another legal action with a revised claim of RMB12 million on 28 April 2016. A settlement agreement was reached between the parties on 1 September 2016 at a settlement amount of RMB9.8 million which was paid on 7 September 2016.

Other than the above-mentioned, the Group had no other material contingent liabilities as at 31 December 2015.

44. PLEDGE OF ASSETS

As at 31 December 2016, the Group's assets with carrying amounts included in the following categories in the consolidated statement of financial position were pledged to secure credit facilities granted to the Group as disclosed in note 33:

	2016	2015
	RMB'000	*RMB'000*
Leasehold land and building	**205,778**	212,638
Investment properties	**588,370**	570,058
Properties under development	**1,991,473**	2,838,422
Short-term investments	**–**	460,000
Pledged deposits	**375,382**	652,010
	3,161,003	4,733,128

In addition, at the 31 December 2016, shares in certain subsidiaries of the Company were charged to secure the Secured Bonds and certain loan facilities were secured by corporate guarantees provided by the Company, personal guarantee provided by Mr. YU Pan and legal charge over shares beneficially owned by Mr. YU Pan, as disclosed in notes 33(a) and 33(d).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

45. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material transactions with related parties:

(a) Material transactions with related parties

Related party relationship	Type of transaction	**2016** **RMB'000**	2015 RMB'000
		Transaction amount	
Companies beneficially owned by Mr. YU Pan and his spouse	(i) Rental income received from office leasing	**111**	111
	(ii) Management fee paid to a related company	**(200)**	–
	(iii) Consideration received from disposal of Yongzhou Project	**277,223**	–

(b) Personal guarantee by the Chairman

As at 31 December 2016, Mr. YU Pan and a company controlled by him have provided personal guarantee and corporate guarantee to banks in respect of the loan facilities extended to some Company's subsidiaries, which are disclosed in notes 33(a) and 33(d).

(c) Compensation of key management personnel

The remuneration of members of senior management, including Directors' emoluments as disclosed in note 11, incurred during the year is as follows:

	2016 **RMB'000**	2015 RMB'000
Short-term benefits	**20,908**	13,744
Other long-term benefits	**549**	429
Equity-settled share-based payment expenses	**5,249**	3,490
	26,706	17,663

Members of senior management are those persons who have authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and executive officers.

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

Financial assets of the Group mainly include available-for-sale investment, cash and cash equivalents, restricted and pledged deposits, consideration receivable, trade and other receivables, derivative financial asset, short-term investments and loan to a non-controlling shareholder of a subsidiary. Financial liabilities of the Group include bank and other borrowings, derivative financial liabilities and trade and other payables. The Group does not hold any financial instruments for trading purposes at the end of the reporting period.

The main financial risks faced by the Group are foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(a) Foreign currency risk

The Group and the Company have transactional currency exposures. Such exposures arise from financing and operating activities of the group entities conducted in currencies other than the functional currency.

The carrying amounts of the Group's monetary assets/(liabilities) which are denominated in currencies other than the functional currencies of the respective group entities at the end of the reporting period are as follows:

	2016	2015
	RMB'000	*RMB'000*
Derivative financial asset		
– HK$	**9,022**	37
Cash and cash equivalents		
– US$	**1,339**	1,949
– HK$	**15,706**	272,034
Bank and other borrowings		
– US$	**(391,849)**	(458,448)
– HK$	**(1,571,738)**	(1,268,734)
Derivative financial liabilities		
– HK$	**(13,359)**	(12,573)

The following table demonstrates the effect of sensitivity to reasonably possible changes in US$ and HK$ exchange rates, with all other variables held constant, on the Group's loss after income tax in the next accounting period:

	2016		2015	
	Change in exchange rate	**Increase (decrease) in loss after income tax**	Change in exchange rate	Increase (decrease) in loss after income tax
	%	***RMB'000***	%	*RMB'000*
If United States dollar weakens against Renminbi	**4%**	**15,620**	4%	18,260
If United States dollar strengthens against Renminbi	**4%**	**(15,620)**	4%	(18,260)
If Hong Kong dollar weakens against Renminbi	**4%**	**62,415**	4%	40,369
If Hong Kong dollar strengthens against Renminbi	**4%**	**(62,415)**	4%	(40,369)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(b) Interest rate risk

The following table details the interest rate profile of the Group's financial assets and liabilities as at the end of the reporting period based upon which the Company's management evaluates the interest rate risk:

	2016 Effective interest rate *(% per annum)*	**2016** Amount *RMB'000*	2015 Effective interest rate *(% per annum)*	2015 Amount *RMB'000*
The Group				
Financial assets				
Fixed rate receivables				
– Available-for-sale investment	**8.00%**	**10,000**	–	–
– Short term investments	**–**	**–**	3.60% to 5.00%	460,000
– Restricted and pledged deposits	**1.90%**	**375,382**	2.50% to 3.28%	652,010
Floating rate receivables				
– Loan to a non-controlling shareholder of a subsidiary	**4.79%**	**52,900**	4.79%	20,400
– Restricted and pledged deposits	**0.35%**	**611,908**	0.35%	270,719
– Other cash at bank	**0.01% to 0.35%**	**1,827,759**	0.01% to 0.35%	381,058
Financial liabilities				
Fixed rate borrowings				
– Other borrowings	**10.75% to 16.13%**	**1,438,373**	10.30% to 18.14%	1,329,749
Floating rate borrowings				
– Bank borrowings	**1.90% to 8.50%**	**2,017,690**	2.75% to 5.23%	1,430,074

The Group's exposure to interest rate risk for changes in interest rates primarily relates to the Group's restricted and pledged deposits, loan to a non-controlling shareholder of a subsidiary, cash at bank included in cash and cash equivalents and floating rate bank and other borrowings. The Group does not use derivative financial instruments to hedge its cash flow interest rate risk of the Group's borrowings.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(b) Interest rate risk (continued)

The following table demonstrates the effect of sensitivity to reasonably possible changes in interest rates, with all other variables held constant, on the Group's loss after income tax in the next accounting period:

	2016		2015	
	Increase/ (decrease) in basis points	**(Decrease)/ increase in loss after income tax** *RMB'000*	Increase/ (decrease) in basis points	(Decrease)/ increase in loss after income tax *RMB'000*
Floating rate financial assets				
Increase in floating rate	**100**	**24,926**	100	6,722
Decrease in floating rate	**(100)**	**(24,926)**	(100)	(6,722)
Floating rate financial liabilities				
Increase in floating rate	**500**	**(100,885)**	500	(71,504)
Decrease in floating rate	**(500)**	**100,885**	(500)	71,504

(c) Credit risk

The Group's exposure to credit risk arises from the considerations receivable and trade and other receivables. Management has performed in-depth due diligence reviews of the financial background and creditability of the counterparties who owe debts to the Group. All considerations receivable for the disposal of interests in Tianhe Project and Yongzhou Project were fully settled in due course pursuant to the disposal agreements.

Management has a formal credit policy in place and the exposure to credit risk is monitored through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount. At the end of the reporting period, there is no significant concentration of credit risk in trade and other receivables.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and restricted and pledged deposits, arises from possible default of the counterparty is low. At the end of the reporting period, the Group has placed these deposits with banks and financial institutions of high credit.

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For the year ended 31 December 2016

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(d) Liquidity risk

The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, is as follows:

	Total undiscounted cashflow							
	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2016								
Trade and other payables	**3,578**	**236,218**	**950,729**	**–**	**–**	**–**	**1,190,525**	**1,190,525**
Bank and other borrowings	**149,310**	**416,694**	**695,074**	**839,102**	**1,255,881**	**2,116,422**	**5,472,483**	**3,456,063**
Guarantee for property mortgage	**3,406,943**	**–**	**–**	**–**	**–**	**–**	**3,406,943**	**–**
	3,559,831	**652,912**	**1,645,803**	**839,102**	**1,255,881**	**2,116,422**	**10,069,951**	**4,646,588**
2015								
Trade and other payables	4,212	116,545	1,079,976	–	–	–	1,200,733	1,200,733
Bank and other borrowings	117,843	1,215,007 *(Note)*	775,016 *(Note)*	676,278	3,686	777,814	3,565,644	2,759,822
Guarantee for property mortgage	1,178,900	–	–	–	–	–	1,178,900	–
	1,300,955	1,331,552	1,854,992	676,278	3,686	777,814	5,945,277	3,960,555

Note: As at 31 December 2016, the bank borrowings of the Group of approximately RMB375,905,000 (2015: RMB891,591,000), were secured by standby letters of credit issued by bank that were secured by the Group's bank deposits of RMB375,382,000 (2015: RMB460,000,000) maturing at the same time of the bank borrowing.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

47. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE

The following table shows the carrying amount and fair value of financial assets and liabilities of the Group and the Company at the end of the reporting period:

	2016		2015	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivable				
– Trade and other receivables	**1,476,130**	***(Note)***	479,100	*(Note)*
– Consideration receivable	**277,401**	***(Note)***	105,000	*(Note)*
– Available-for-sale investment	**10,000**	***(Note)***	–	–
– Short-term investments	**–**	**–**	460,000	*(Note)*
– Loan to a non-controlling shareholder of a subsidiary	**52,900**	***(Note)***	20,400	*(Note)*
– Restricted and pledged deposits	**987,290**	***(Note)***	922,729	*(Note)*
– Cash and cash equivalents	**1,794,440**	***(Note)***	383,255	*(Note)*
Fair value through profit or loss				
– Derivative financial asset	**9,022**	**9,022**	37	37
Financial liabilities				
Financial liabilities at amortised costs				
– Trade and other payables	**1,190,525**	***(Note)***	1,146,528	*(Note)*
– Bank and other borrowings:				
the Secured Loan	**486,209**	**500,917**	434,824	454,758
the Secured Bonds	**35,455**	**36,355**	31,739	33,009
the Unseured Bonds	**406,198**	**468,997**	168,093	170,934
others	**2,528,201**	***(Note)***	2,125,166	*(Note)*
Fair value through profit or loss				
– Derivative financial liabilities	**13,359**	**13,359**	12,573	12,573

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

47. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Note:

Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and other receivables, consideration receivable, available-for-sale investment, short-term investments, loan to a non-controlling shareholder of a subsidiary, restricted and pledged deposits, cash and cash equivalents, derivative financial asset, trade and other payables and bank and other borrowings.

The Directors consider that the carrying amounts of these categories approximate their fair value on the grounds that either their maturities are short or their effective interest rates are approximate to the discount rates as at the end of the reporting period.

The fair value of bank and other borrowings issued for disclosure purposes has been determined in accordance with generally accepted pricing models based on discounted cash flow analysis using information from observable current market transactions.

Financial instruments measured at fair value

The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, option pricing models are used for option derivatives.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 2 and level 3 financial instruments, as well as the relationship between key observable inputs and fair value are set out below.

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the liability that are not based on observable market data (unobservable inputs).

	2016	2015
	Level 3	Level 3
	RMB'000	*RMB'000*
Financial asset at fair value through profit or loss		
– Derivative	**9,022**	37
Financial liabilities at fair value through profit or loss		
– Derivatives	**13,359**	12,573

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

47. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Note: (continued)

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

	Financial asset RMB'000	Financial liabilities RMB'000	2016 RMB'000	2015 RMB'000
At 1 January	(37)	12,573	**12,536**	32
Issue of the Secured/Unsecured Bonds	(3,566)	5,566	**2,000**	14,301
Total gains or losses:				
– Changes in fair value recognised in profit or loss during the year	(5,273)	(5,848)	**(11,121)**	(2,632)
– Exchange differences	(146)	1,068	**922**	835
At 31 December	(9,022)	13,359	**4,337**	12,536

During the year ended 31 December 2016, there were no transfers between instruments in Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Liabilities for which fair value are disclosed

	Valuation technique	Significant inputs	2016 Level 2 RMB'000	2015 Level 2 RMB'000
Bank and other borrowings				
– the Secured Loan	The hull-white trinomial tree	Discount rate and short-term volatility parameter	**500,917**	454,758
– the Secured Bonds	Discounted cash flow	Discount rate and bond yield	**36,355**	33,009
– the Unsecured Bonds	The hull-white trinomial tree	Discount rate and short-term volatility parameter	**524,311**	170,934

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

47. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Financial asset/liabilities	Fair value	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs *(Note)*	Relationship of unobservable inputs to fair value
Financial liabilities at fair value through profit or loss	Derivative financial liabilities – Conversion option	Level 3	Binomial Option Pricing Model	Underlying share price[1]	Higher share price, higher conversion option value
				Volatility[2]	Higher volatility, higher conversion option value
Financial liabilities at fair value through profit or loss	Derivative financial liabilities – Extension option	Level 3	Binomial Option Pricing Model	Effective interest rate (discount rate)[3]	Higher effective interest rate, lower extenson option value
Financial liabilities at fair value through profit or loss	Derivative financial liabilities – Holder Redemption Rights	Level 3	The hull-white trinomial tree	Discount Rate[4]	Higher discount rate, higher the holder redemption rights
				Short-term volatility parameter	Higher the short-term volatility parameter, higher the holder redemption rights
Financial assets at fair value through profit or loss	Derivative financial assets – Company Redemption Rights	Level 3	The hull-white trinomial tree	Discount Rate[4]	Higher the discount rate, lower the company redemption rights
				Short-term volatility parameter	Higher the short-term volatility parameter, higher the company redemption rights

Note:

1. If the underlying share price is 5% higher/lower while all other variables were held constant, the carrying amount of the derivative financial liabilities (Conversion option and Extension option) would increase/decrease by approximately RMB881,000 and RMB880,000 respectively as at 31 December 2016 (2015: RMB484,000 and 483,000).

2. If the volatility is 5% higher/lower while all other variables were held constant, the carrying amount of the derivative financial liabilities (Conversion option and Extension option) would increase/decrease by approximately RMB450,000 and RMB456,000 respectively as at 31 December 2016 (2015: RMB287,000 and 291,000).

3. If the discount rate is 1% higher/lower while all other variables were held constant, the carrying amount of the derivative financial liabilities (Conversion option and Extension option) would decrease/increase by approximately RMB3,109,000 and RMB3,160,000 respectively as at 31 December 2016 (2015: RMB6,661,000 and 6,821,000).

4. If the discount rate is 5% higher/lower while all other variables were held constant, the carrying amount of the derivative financial liabilities (Holder Redemption Rights and Company Redemption Rights) would decrease/increase by approximately RMB15,765,000 and RMB17,764,000 respectively as at 31 December 2016 (2015: RMB6,456,000 and 7,086,000).

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48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

As at 31 December 2016

	2016	2015
	RMB'000	*RMB'000*
Non-current assets		
Interests in subsidiaries	**3,090,174**	3,277,323
Derivative financial asset	**9,022**	37
	3,099,196	3,277,360
Current assets		
Amounts due from subsidiaries	**24,090**	3,478
Prepayments and other receivables	**14,478**	13,999
Cash and cash equivalents	**4,697**	266,096
	43,265	283,573
Current liabilities		
Accruals and other payables	**1,933**	5,253
Amounts due to subsidiaries	**302,743**	1,287,077
Other borrowings – current portion	**521,664**	340,239
Derivative financial liabilities – current portion	**11,177**	–
Income tax payable	**55,830**	–
	893,347	1,632,569
Net current liabilities	**(850,082)**	(1,348,996)
Total assets less current liabilities	**2,249,114**	1,928,364
Non-current liabilities		
Other borrowings – non-current portion	**916,709**	746,656
Derivative financial liabilities – non-current portion	**2,182**	12,573
	918,891	759,229
Net assets	**1,330,223**	1,169,135
Capital and reserves		
Share capital	**24,456**	21,068
Reserves	**1,305,767**	1,148,067
Total equity	**1,330,223**	1,169,135

On behalf of the Board

Yu Pan	**Wen Xiaobing**
Director	*Director*

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For the year ended 31 December 2016

49. RESERVES OF THE COMPANY

	Share premium RMB'000	Contributed surplus reserve RMB'000	Share-based payment reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2015	1,507,182	16,116	12,152	(201,254)	1,334,196
Recognition of equity-settled share-based payment expenses	–	–	6,546	–	6,546
Reallocation of lapsed options from share-based payment reserve to accumulated losses	–	–	(8,122)	8,122	–
Loss for the year	–	–	–	(192,675)	(192,675)
As at 31 December 2015 and at 1 January 2016	**1,507,182**	**16,116**	**10,576**	**(385,807)**	**1,148,067**
Issue of shares: Share placing	**159,217**	**–**	**–**	**–**	**159,217**
Share issue expenses	**(3,812)**	**–**	**–**	**–**	**(3,812)**
Recognition of equity-settled share-based payment expenses	**–**	**–**	**9,596**	**–**	**9,596**
Reallocation of lapsed options from share-based payment reserve to accumulated losses	**–**	**–**	**(994)**	**994**	**–**
Loss for the year	**–**	**–**	**–**	**(7,301)**	**(7,301)**
At 31 December 2016	**1,662,587**	**16,116**	**19,178**	**(392,114)**	**1,305,767**

50. PRINCIPAL SUBSIDIARIES

	Notes	2016 RMB'000	2015 RMB'000
Interests in subsidiaries – non-current portion			
Unlisted investments, at cost	(a), (c)	**3,090,174**	3,277,323
Amounts due from subsidiaries – current portion			
Amounts due from subsidiaries	(b)	**42,076**	21,464
Less: Provision for impairment loss		**(17,986)**	(17,986)
		24,090	3,478
		3,114,264	3,280,801
Amounts due to subsidiaries	(b)	**(302,743)**	(1,287,077)

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50. PRINCIPAL SUBSIDIARIES (continued)

Notes:

(a) Details of the Company's principal operating subsidiaries as at 31 December 2016 are as follows:

Name of subsidiaries	Place of incorporation/ establishment operation	Particulars of issued ordinary shares/ paid-up capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activities
廣州市創豪譽投資管理諮詢有限公司 (前稱廣州市創譽房地產有限公司) (Guangzhou Chuanghaoyu Investment Management Consulting Company Limited* ("**Chuanghaoyu**")	PRC	United States dollar ("US$") 6,000,000	–	100%	Provision of investments management services, property management, property sales and leasing
廣州市天譽物業管理有限公司 (Guangzhou Tianyu Property Management Company Limited)*	PRC	RMB53,000,000	–	100%	Provision of property management services
廣州市天譽科技創新投資有限公司 (Guangzhou Tianyu Technology Innovative Company Limited)*	PRC	RMB50,000,000	–	70%	Provision of innovative technology operating services
廣州譽浚諮詢服務有限公司 (Guangzhou Yu Jun Consulting Service Company Limited)* ("**GZ Yu Jun**")	PRC	HK$5,000,000	–	100%	Investment holding and provision of property development project management services in the PRC
Guangzhou Zhoutouzui Development Limited	Hong Kong	HK$100	–	100%	Investment holding
南寧天譽巨成置業有限公司 (Nanning Tianyu Jucheng Realty Company Limited)* ("**Nanning Jucheng**")	PRC	RMB50,000,000	–	80%	Property development in the PRC
南寧天譽巨榮置業有限公司 (Nanning Tianyu Jurong Realty Company Limited)*	PRC	RMB50,000,000	–	100%	Property development in the PRC
南寧天譽譽浚投資有限公司 (Nanning Tianyu Yujun Investment Company Limited)*	PRC	RMB50,000,000	–	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

50. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(a) (continued)

Name of subsidiaries	Place of incorporation/ establishment operation	Particulars of issued ordinary shares/ paid-up capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activities
Skyfame Management Services Limited	Hong Kong	HK$1	100%	–	Provision of management services to group entities
Trenco Holdings Limited	Hong Kong	HK$10,000	–	100%	Investment holding
Waymax Investments Limited	Hong Kong	HK$1	100%	–	Property investment
Winprofit Investments Limited	BVI	US$100	100%	–	Investment holding
徐州譽城置業有限公司 (Xuzhou Yucheng Realty Company Limited)* ("**Xuzhou Yucheng**")	PRC	RMB138,000,000	–	90%	Property development in the PRC
永州天譽旅遊發展有限公司 (Yongzhou Tianyu Tourism Development Company Limited)* ("**YZ Tianyu Tourism**")	PRC	RMB100,000,000	–	70%	Scenic zone management, property development and hotel operation in the PRC

* *English name is for identification purpose only.*

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affects the results or assets of the Group.

Chuanghaoyu and GZ Yu Jun are wholly foreign-owned enterprises established with limited liability in the PRC.

Xuzhou Yucheng is a sino-foreign joint venture company established in the PRC.

(b) The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

50. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(c) Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarized financial information for each subsidiary that has non-controlling interests that are material to the Group.

Summarised statement of financial position

	Nanning Jucheng		YZ Tianyu Real Estate		YZ Tianyu Tourism		Xuzhou Yucheng	
	As at 31 December		As at 31 December		As at 31 December		As at 31 December	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Current								
Assets	**4,572,035**	2,883,855	**–**	254,326	**98,811**	129,442	**181,456**	–
Liabilities	**(4,617,069)**	(2,884,822)	**–**	(337,870)	**(3)**	(30,003)	**–**	–
	(45,034)	(967)	**–**	(83,544)	**98,808**	99,439	**181,456**	–
Non-current								
Assets	**1,061**	1,307	**–**	755	**4**	6	**–**	–
Liabilities	**–**	–	**–**	–	**–**	–	**(43,506)**	–
	1,061	1,307	**–**	755	**4**	6	**(43,506)**	–
Net assets/(liabilities)	**(43,973)**	340	**–**	(82,789)	**98,812**	99,445	**137,950**	–
Accumulated non-controlling interests	**(8,794)**	68	**–**	(24,837)	**29,643**	29,834	**13,795**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

50. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(c) Summarised financial information on subsidiaries with material non-controlling interests (continued)

Summarised statement of profit or loss and other comprehensive income

	Nanning Jucheng For the year ended 31 December		YZ Tianyu Real Estate For the year ended 31 December		YZ Tianyu Tourism For the year ended 31 December		Xuzhou Yucheng For the year ended 31 December	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue	**276,265**	–	**79,508**	269,427	**–**	–	**–**	–
Profit/(loss) before income tax	**(44,313)**	(30,363)	**14,177**	(24,245)	**(5)**	(13)	**(47)**	–
Income tax expense	**–**	–	**(5,817)**	(23,816)	**–**	–	**–**	–
Profit/(loss) after tax and total comprehensive income	**(44,313)**	(30,363)	**8,360**	(48,061)	**(5)**	(13)	**(47)**	–
Profit/(loss) allocated to non-controlling interests	**(8,862)**	(6,073)	**2,508**	(14,418)	**(2)**	(4)	**(5)**	–
Dividends paid to non-controlling interests	**–**	–	**–**	–	**–**	–	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

50. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(c) Summarised financial information on subsidiaries with material non-controlling interests (continued)

Summarised statement of cash flows

	Nanning Jucheng For the year ended 31 December		YZ Tianyu Real Estate For the year ended 31 December		YZ Tianyu Tourism For the year ended 31 December		Xuzhou Yucheng For the year ended 31 December	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Cash flows from operating activities								
Cash generated from(used in)/from operations	**744,208**	391,104	**(8,216)**	30,735	**7,609**	4,384	**(168,503)**	–
Income tax paid	**(33,122)**	(41,052)	**(1,045)**	(3,916)	**–**	–	**–**	–
Other borrowing costs paid	**–**	–	**–**	(610)	**–**	–	**–**	–
Interest paid	**(4,005)**	(52,215)	**–**	(5,749)	**–**	–	**–**	–
Net cash from/(used in) from operating activities	**707,081**	297,837	**(9,261)**	20,460	**7,609**	4,384	**(168,503)**	–
Cash flows from investing activities								
Interest received	**2,323**	650	**38**	155	**–**	1	**–**	–
Disposal of a subsidiary, net of cash disposed of	**–**	–	**(13,344)**	–	**–**	–	**–**	–
Purchase of property, plant and equipment	**(311)**	(1,226)	**–**	–	**–**	–	**–**	–
Acquisitions of available-for-sale investment	**(10,000)**	–	**–**	–				
Acquisitions of short–term investments	**–**	–	**–**	(35,000)	**–**	–	**–**	–
Disposal of short term investments	**–**	7,500	**–**	64,000				
Increase in restricted and pledged deposits	**(78,610)**	(3,798)	**–**	–	**–**	–	**–**	–
Net cash from/(used in) investing activities	**(86,598)**	3,126	**(13,306)**	29,155	**–**	1	**–**	–
Cash flows from financing activities								
Repayment of bank and other borrowings	**–**	–	**–**	(145,000)	**–**	–	**–**	–
Advance from/(repayment to) intermediate/immediate holding company or fellow subsidiaries	**(446,732)**	(185,536)	**3,879**	70,698	**(7,619)**	(4,560)	**43,486**	–
Loan to shareholders	**(162,500)**	(102,000)	**–**	–	**–**	–	**–**	–
Capital contribution from shareholders	**–**	–	**–**	–	**–**	–	**125,317**	–
Net cash from/(used in) financing activities	**(609,232)**	(287,536)	**3,879**	(74,302)	**(7,619)**	(4,560)	**168,803**	–
Net increase/(decrease) in cash and cash equivalents	**11,251**	13,427	**(18,688)**	(24,687)	**(10)**	(175)	**300**	–
Cash and cash equivalents at beginning of year	**58,484**	45,058	**18,688**	43,375	**15**	190	**–**	–
Cash and cash equivalents at the end of year	**69,735**	58,485	**–**	18,688	**5**	15	**300**	–

The information above is the amount before inter-company eliminations.

51. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 31 March 2017.

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF SKYFAME REALTY (HOLDINGS) LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Skyfame Realty (Holdings) Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 63 to 149, which comprise the consolidated statement of financial position as at 31 December 2015, and 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 a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants
CHAN Wing Fai
Practising Certificate Number P05443

Hong Kong, 18 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Revenue	7	**306,321**	157,870
Cost of sales and services		**(272,393)**	(123,879)
Gross profit		**33,928**	33,991
Other income and gains, net		**1,402**	5,505
Sales and marketing expenses		**(46,000)**	(23,087)
Administrative and other expenses		**(137,516)**	(101,361)
Unrealised exchange loss		**(69,026)**	(972)
Fair value changes in investment properties	18	**6,736**	(38,822)
Write-down of properties under development/properties held for sale	23, 24	**(20,024)**	(38,759)
Gain from bargain purchase		**–**	1,600
Fair value changes in derivative financial asset/liabilities		**2,632**	2,245
Loss on disposal of subsidiaries, net of tax		**–**	(15,830)
Finance costs	8	**(1,813)**	(1,871)
Finance income	8	**21,198**	9,035
Loss before income tax	9	**(208,483)**	(168,326)
Income tax (expense)/credit	13	**(23,781)**	8,346
LOSS FOR THE YEAR		**(232,264)**	(159,980)
Other comprehensive income, items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on foreign operations		**(891)**	(325)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(233,155)**	(160,305)
Loss for the year attributable to:			
– Owners of the Company	14	**(211,769)**	(141,252)
– Non-controlling interests		**(20,495)**	(18,728)
		(232,264)	(159,980)
Total comprehensive income for the year attributable to:			
– Owners of the Company		**(212,660)**	(141,577)
– Non-controlling interests		**(20,495)**	(18,728)
		(233,155)	(160,305)
Loss per share – Basic and diluted	15	**(RMB0.096)**	(RMB0.064)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Non-current assets			
Property, plant and equipment	17	**262,725**	271,993
Investment properties	18	**570,058**	556,533
Properties under Tianhe Project	19	**–**	777,090
Goodwill	20	**13,554**	13,554
Derivative financial asset	33	**37**	–
Consideration receivable	22	**–**	105,000
		846,374	1,724,170
Current assets			
Properties under development	23	**6,159,277**	3,828,284
Properties under Tianhe Project	19	**786,168**	–
Properties held for sale	24	**177,850**	125,526
Consideration receivable	22	**105,000**	–
Loan to a non-controlling shareholder of a subsidiary	26	**20,400**	–
Trade and other receivables	27	**495,974**	467,037
Short-term investments	28	**460,000**	244,000
Restricted and pledged deposits	29	**922,729**	334,844
Cash and cash equivalents	30	**383,255**	201,105
		9,510,653	5,200,796
Current liabilities			
Trade and other payables	31	**1,200,733**	228,774
Properties pre-sale deposits		**3,710,375**	1,461,340
Bank and other borrowings – current portion	33	**2,013,166**	1,305,610
Derivative financial liabilities – current portion	33	**–**	32
Consideration from disposal of Tianhe Project – current portion	34	**990,360**	–
Income tax payable		**5,378**	64,971
		7,920,012	3,060,727
Net current assets		**1,590,641**	2,140,069
Total assets less current liabilities		**2,437,015**	3,864,239

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Non-current liabilities			
Bank and other borrowings – non-current portion	33	**746,656**	969,217
Derivative financial liabilities – non-current portion	33	**12,573**	–
Consideration from disposal of Tianhe Project – non-current portion	34	**–**	990,360
Deferred tax liabilities	35	**168,781**	169,048
		928,010	2,128,625
Net assets		**1,509,005**	1,735,614
Capital and reserves			
Share capital	36	**21,068**	21,068
Reserves	37	**1,482,872**	1,688,986
Equity attributable to owners of the Company		**1,503,940**	1,710,054
Non-controlling interests		**5,065**	25,560
Total equity		**1,509,005**	1,735,614

On behalf of the Board

YU Pan	**WEN Xiaobing**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to owners of the Company												
	Share capital	Share premium	Contributed surplus reserve	Share-based payment reserve	Property revaluation reserve	Merger reserve	Statutory reserves	Foreign exchange reserve	Other/ capital reserve	Retained profits	Sub-total	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2014	21,068	1,507,182	16,116	13,505	34,499	(293,095)	6,471	(87)	7,351	536,971	1,849,981	75,668	1,925,649
Loss for the year	–	–	–	–	–	–	–	–	–	(141,252)	(141,252)	(18,728)	(159,980)
Other comprehensive expenses	–	–	–	–	–	–	–	(325)	–	–	(325)	–	(325)
Total comprehensive expenses for the year	–	–	–	–	–	–	–	(325)	–	(141,252)	(141,577)	(18,728)	(160,305)
Transfer among reserves	–	–	–	–	–	–	–	–	(7,351)	7,351	–	–	–
Arising on acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	112	112
Disposals of subsidiaries	–	–	–	–	–	–	–	–	743	–	743	(31,492)	(30,749)
Recognition of equity-settled share-based payment expenses	–	–	–	907	–	–	–	–	–	–	907	–	907
Reallocation of lapsed options from share-based payment reserve to retained profits	–	–	–	(2,260)	–	–	–	–	–	2,260	–	–	–
At 31 December 2014 and 1 January 2015	**21,068**	**1,507,182**	**16,116**	**12,152**	**34,499**	**(293,095)**	**6,471**	**(412)**	**743**	**405,330**	**1,710,054**	**25,560**	**1,735,614**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(211,769)**	**(211,769)**	**(20,495)**	**(232,264)**
Other comprehensive expenses	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(891)**	**–**	**–**	**(891)**	**–**	**(891)**
Total comprehensive expenses for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(891)**	**–**	**(211,769)**	**(212,660)**	**(20,495)**	**(233,155)**
Recognition of equity-settled share-based payment expenses	**–**	**–**	**–**	**6,546**	**–**	**–**	**–**	**–**	**–**	**–**	**6,546**	**–**	**6,546**
Reallocation of lapsed options from share-based payment reserve to retained profits	**–**	**–**	**–**	**(8,122)**	**–**	**–**	**–**	**–**	**–**	**8,122**	**–**	**–**	**–**
At 31 December 2015	**21,068**	**1,507,182**	**16,116**	**10,576**	**34,499**	**(293,095)**	**6,471**	**(1,303)**	**743**	**201,683**	**1,503,940**	**5,065**	**1,509,005**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Net cash from/(used in) operating activities	39	**158,130**	(1,114,016)
Investing activities			
Interest received		**22,880**	2,411
Net cash inflow arising from the acquisition of subsidiaries		**–**	7,541
Disposal of subsidiaries, net of cash disposed of		**–**	150,556
Purchase of property, plant and equipment		**(2,949)**	(9,038)
Acquisition of short-term investments		**(908,000)**	(244,000)
Disposal of short-term investments		**692,000**	–
Increase in restricted and pledged deposits		**(587,885)**	(284,231)
Net cash used in investing activities		**(783,954)**	(376,761)
Financing activities			
New bank and other borrowings		**2,360,401**	1,994,587
Repayment of bank and other borrowings		**(1,530,852)**	(590,608)
Loan advanced to a non-controlling shareholder of a subsidiary		**(20,400)**	–
Repayment of loans from non-controlling shareholders of a subsidiary		**–**	(12,542)
Loan advanced from a related company		**–**	30,000
Repayment of loan advanced from a related company		**–**	(30,000)
Net cash from financing activities		**809,149**	1,391,437
Net increase/(decrease) in cash and cash equivalents		**183,325**	(99,340)
Effect of foreign exchange rate changes		**(1,175)**	(71)
Cash and cash equivalents at beginning of year		**201,105**	300,516
Cash and cash equivalents at end of year	30	**383,255**	201,105

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. GENERAL

Skyfame Realty (Holdings) Limited (the "**Company**") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Its (a) registered office, (b) head office and principal place of business in the People's Republic of China ("**PRC**"), and (c) principal place of business in Hong Kong are at (a) Clarendon House, 2 Church Street, Hamilton HM11, Bermuda; (b) 32nd to 33rd floors of HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, PRC and (c) Unit 1401, 14th Floor, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong, respectively.

The Company's parent is Grand Cosmos Holdings Limited ("**Grand Cosmos**") and the directors of the Company (the "**Directors**") consider its ultimate holding company is Sharp Bright International Limited ("**Sharp Bright**"). Grand Cosmos and Sharp Bright are both incorporated in the British Virgin Islands (the "**BVI**").

The Company and its subsidiaries are hereinafter collectively referred to as the "**Group**". The principal activity of the Company continues to be investment holding. The principal activities of its subsidiaries are property development, property investment and property management.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 January 2015

HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle
Amendments to HKAS 19 (2011)	Defined Benefit Plans: Employee Contributions

Except as explained below, the adoption of these amendments has no material impact on the Group's financial statements.

Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle

The amendments issued under the annual improvements process make small, non-urgent changes to a number of standards where they are currently unclear. They include amendments to HKAS 16 Property, Plant and Equipment to clarify how the gross carrying amount and accumulated depreciation are treated where an entity uses the revaluation model. The carrying amount of the asset is restated to revalued amount. The accumulated depreciation may be eliminated against the gross carrying amount of the asset. Alternatively, the gross carrying amount may be adjusted in a manner consistent with the revaluation of the carrying amount of the asset and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The adoption of the amendments to HKAS16 has no impact on these financial statements as the Group did not adopt revaluation model on property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2015 (continued)

Amendments to HKAS 19 (2011) – Defined Benefit Plans: Employee Contributions

The amendments permit contributions that are independent of the number of years of service to be recognised as a reduction in the service cost in the period in which the service is rendered instead of allocating the contributions to periods of service.

The adoption of the amendments has no impact on these financial statements as the Group has no defined benefit plans.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements have been issued but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle[1]
Amendments to HKAS 1	Disclosure initiative[1]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[1]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[1]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[1]
HKFRS 9 (2014)	Financial Instruments[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[1]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[1]
HKFRS 14	Regulatory Deferral Accounts[1]
HKFRS 15	Revenue from Contracts with Customers[2]

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2017
3 Effective for annual periods beginning, on or after 1 January 2018

Amendments to HKAS 1 – Disclosure Initiative

The amendments are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements.

An entity's share of other comprehensive income from equity accounted interests in associates and joint ventures will be split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as a single line item within those two groups.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (continued)

Amendments to HKAS 16 and HKAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to HKAS 16 and HKAS 41 – Agriculture: Bearer Plants

The amendments define bearer plants and require biological assets that meet the definition to be accounted for as property, plant and equipment in accordance with HKAS 16. The agricultural produce of bearer plants remains within the scope of HKAS 41.

Amendments to HKAS 27 – Equity Method in Separate Financial Statements

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

HKFRS 9 (2014) – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at FVTOCI if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at FVTPL.

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (continued)

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 – Investment Entities: Applying the Consolidation Exception

The amendments clarify that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a subsidiary of an investment entity (including investment entities that account for their subsidiaries at fair value rather than consolidating them). An investment entity parent will consolidate a subsidiary only when the subsidiary is not itself an investment entity and the subsidiary's main purpose is to provide services that relate to the investment entity's investment activities. A non-investment entity applying the equity method to an associate or joint venture that is an investment entity may retain the fair value measurements that associate or joint venture used for its subsidiaries. An investment entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss should provide the disclosures related to investment entities as required by HKFRS 12.

Amendments to HKFRS 11- Accounting for Acquisitions of Interests in Joint Operations

The amendments require an entity to apply all of the principles of HKFRS 3 Business Combinations when it acquires an interest in a joint operation that constitutes a business as defined in that standard. The principles of HKFRS 3 are also applied upon the formation of a joint operation if an existing business as defined in that standard is contributed by at least one of the parties.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (continued)

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

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

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The Group has already commenced an assessment of the impact of adopting the above Standards and amendments to existing Standards to the Group. The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

(c) New Companies Ordinance provisions relating to the preparation of financial statements

The provisions of the new Companies Ordinance, Cap. 622, in relation to the preparation of financial statements apply to the Company in this financial year.

The directors consider that there is no impact on the Group's financial position or performance, however the new Companies Ordinance, Cap. 622, impacts on the presentation and disclosures in the consolidated financial statements. For example, the statement of financial position of the Company is now presented in the notes to the financial statements rather than as a primary statement and related notes to the statement of financial position of the Company are generally no longer presented.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except that the investment properties and financial derivative asset/liabilities are stated at their fair values as explained in the accounting policies set out in note 4.

(c) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

(d) Functional and presentation currency

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is same as the functional currency of the Company and its principal subsidiaries.

4. PRINCIPAL ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Business combination and basis of consolidation (continued)

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRS. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Business combination and basis of consolidation (continued)

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Joint arrangements

The group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The group classifies its interests in joint arrangements as either:

- *Joint ventures:* where the group has rights to only the net assets of the joint arrangement; or

- *Joint operations:* where the group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement;

- The legal form of joint arrangements structured through a separate vehicle;

- The contractual terms of the joint arrangement agreement; and

- Any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquire over the fair value of identifiable assets and liabilities acquired.

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("**CGUs**") that are expected to benefit from the synergies of the acquisition. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A CGU to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment

The property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Leasehold land	12 to 38 years
Buildings	12 to 30 years
Furniture, fixtures and equipment	2 to 5 years
Motor vehicles	4 to 10 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(f) Investment properties

Investment properties are properties held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

(g) Properties under development

Properties under development, including properties under Tianhe Project, are initially recognised at cost, and subsequently at the lower of cost and net realisable value. The cost of properties comprises land costs, development expenditure, professional fees and borrowing costs capitalised. Land costs include prepaid lease payments representing up-front payments to acquire long-term interests in lessee-occupied properties. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost represents the carrying amount of properties under development upon the completion of the construction of properties. Net realisable value represents the estimated selling price of properties sold in the ordinary course of business less estimated costs to be incurred in selling the properties.

(i) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets at fair value through profit or loss

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

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

(i) Financial assets (continued)

Financial assets at fair value through profit or loss (continued)

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis according to a documented management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor’s financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

(i) Financial assets (continued)

For Loans and receivables

An impairment loss is recognised in profit or loss and directly reduces the carrying amount of financial asset when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

(iii) Financial liabilities (continued)

Financial liabilities at amortised cost

Financial liabilities at amortised cost, including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Company measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

(vii) Derecognition

The Group derecognises a financial asset where the contractual rights to the future cash flows in relation to the financial asset expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged or cancelled or expires.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable from goods sold or services provided, net of discounts and sales related taxes as follows:

(i) Revenue from sale of properties is recognised when the risks and rewards of ownership of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed, the properties have been delivered to the purchasers pursuant to the sales agreement and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are presented as current liabilities in the statement of financial position.

(ii) Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.

(iii) Property management service income is recognised when services are provided.

(iv) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(l) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Income taxes (continued)

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(m) Foreign currency

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the "**functional currency**") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of the group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(m) Foreign currency (continued)

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of profit or loss on disposal.

(n) Employee benefits

(i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution pension plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

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

(o) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share-based payment reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in the share-based payment reserve within equity is recognised. For cash-settled share-based payments, a liability is recognised at the fair value of the goods or services received.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of property, plant and equipment and investments in subsidiaries to determine whether there is any indication that these assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of a non-financial asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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, the existence of which 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(r) Leasing

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

The Group as lessor

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

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expenses, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

(s) Related parties

(a) 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 key management personnel of the Group or the Company's parent.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. PRINCIPAL ACCOUNTING POLICIES (continued)

(s) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions apply:

(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 the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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 and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENTS

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Key sources of estimation uncertainty are as follows:

Consideration receivable

Pursuant to an agreement entered by the Company on 26 July 2010 with 海航酒店控股集團有限公司 (Hainan Airline Hotel Holdings Group Co., Limited) ("**HNA Hotel**"), in relation to the Company's disposal of its entire shareholding in 廣州寰城實業發展有限公司 (Guangzhou Huan Cheng Real Estate Development Company Limited) ("**Huan Cheng**"), a former subsidiary engaged in the development of Tianhe Project, the final installment amount payable by HNA Hotel may be subject to adjustments caused by overruns in construction costs and delays in construction (the "**Disposal Agreement**"). Further on 20 October 2015, a supplemental agreement was entered into with 海南海控置業有限公司 (Hainan Haikong Realty Company Limited) ("**Hainan Realty**"), Huan Cheng's holding company, which stipulated that the parties agreed that the construction costs be revised as a result of variations in certain construction specifications requested by Huan Cheng, HNA Hotel and Hainan Realty and the completion of the project will be taken place on or before 30 June 2016. The management estimates that no adjustment is to be made to the consideration receivable as it perceives that HNA Hotel will waive the Company's responsibilities in the delays in the construction and the revised construction costs. Based on the management's past experience in project management, its judgment on the current progress of construction, the management expects that the project will be duly completed within the extended timeline at the revised construction costs. Hence, the directors considered that the consideration receivable will be fully recoverable at its carrying amount as at 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENTS (continued)

Impairment of non-financial assets other than goodwill

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgement from management with respect to whether such an event has occurred.

Upon the occurrence of triggering events, the carrying amounts of non-financial assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus residual value of the asset on disposal. Where the recoverable amount of non-financial assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

The impairment assessment is performed based on the discounted cash flow analysis. This analysis relies on factors such as forecast of future performance and long-term growth rates and the selection of discount rates. If these forecast and assumptions prove to be inaccurate or circumstances change, further write-down or reversal of the write-down of the carrying value of the non-financial assets may be required.

Income taxes and deferred taxes

The Group is subject to taxation in the PRC and Hong Kong. Significant judgement is required in determining the amount of the provision for taxation and the timing of the related payments. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will have impact on the income tax and/or deferred tax provisions in the period in which such determination is made.

Land appreciation taxes

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

Those subsidiaries of the Company which are engaged in property development business in the PRC are subject to land appreciation taxes, which have been included in income tax expense in profit or loss. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its LAT returns with the relevant tax authorities in respect of certain property development projects. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expense and provision for land appreciation taxes in the period in which such determination is made.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENTS (continued)

Provision for write-down in value of properties under development and properties held for sale

Management of the Group reviews the development budget and the estimation of net realisable value of the properties at the end of each reporting period, and makes provision for write-down in value, if any. These estimates are based on management's monitoring of the development progress, the current market conditions which may affect the cost to complete and/or the selling price, and the historical experience of selling the properties of similar nature. It could change as a result of changes in market conditions or internal factors of the Group. Such changes will have impact on the carrying amounts of the properties and the provision for write-down in value in the period in which such estimates have been changed. The Group reassesses these estimates at the end of each reporting period.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

Critical judgments in applying accounting policies are as follows:

Consideration from disposal of Tianhe Project

During the year and at the end of the reporting period, the management makes judgement on whether the revenue recognition criteria set out in paragraph 14 of HKAS 18 "Revenue" in respect of the sale of the underlying assets and liabilities of the Tianhe Project have been fully satisfied, with reference to the terms of the agreement governing the sale transaction and the current circumstances of the performance of certain obligations of the Group. Without having fully satisfied the revenue recognition criteria, the related revenue and costs of the project are deferred and carried in the consolidated statement of financial position. More details have been set out in note 34.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. SEGMENT REPORTING

In a manner consistent with the way in which information is reported internally for the purposes of resource allocation and performance assessment, the Group is currently organised into three operating divisions – property development, property investment and property management. As management of the Group considers that nearly all consolidated revenue are attributable to the markets in the PRC and consolidated non-current/current assets are substantially located in the PRC, no geographical information is presented. The Group's reportable segments are as follows:

Property development	–	Property development and sale of properties
Property investment	–	Property leasing
Property management	–	Property management services

The Group's senior executive management monitors the results attributable to each reportable segment on the basis that revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses directly incurred by those segments. In addition to the segment performance in terms of segment results, management also provides other segment information concerning depreciation and amortisation, fair value changes in investment properties, gain from bargin purchase and write-down of properties under development/held for sale.

Segment assets/liabilities include all assets/liabilities attributable to those segments with the exception of short-term investments, cash and bank balances, unallocated bank and other borrowings, derivative financial assets/liabilities and taxes. Investment properties are included in segment assets but the related fair value changes in investment properties are excluded from segment results because the Group's senior executive management considers that they are not generated from operating activities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. SEGMENT REPORTING (continued)

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance in the consolidated financial statements is set out below:

	Property development RMB'000	Property investment RMB'000	Property management RMB'000	Total RMB'000
Year ended 31 December 2015				
Segment revenue				
Reportable segment revenue	269,427	26,410	29,123	324,960
Elimination of intra-segment revenue	–	(8,166)	(10,473)	(18,639)
Consolidated revenue from external customers	269,427	18,244	18,650	306,321
Segment results	(118,184)	12,827	(14,156)	(119,513)
Reconciliation:				
Unallocated corporate net expenses				(97,699)
				(217,212)
Fair value changes in investment properties	–	6,736	–	6,736
Write-down of properties under development/ properties held for sale	(20,024)	–	–	(20,024)
Fair value changes in derivative financial asset/liabilities				2,632
Finance costs				(1,813)
Finance income				21,198
Consolidated loss before income tax				(208,483)
Other segment information:				
Depreciation and amortisation	(1,366)	(896)	(1,733)	(3,995)
Impairment loss on trade and other receivables	–	75	(285)	(210)
Additions to properties under Tianhe project	9,077	–	–	9,077
Additions to properties under development	2,395,868	–	–	2,395,868
Capital expenditure	1,869	–	161	2,030
As at 31 December 2015				
Assets and liabilities				
Assets				
Reportable segment assets	8,009,651	577,828	42,170	8,629,649
Reconciliation:				
Derivative financial asset				37
Short-term investments				460,000
Cash and cash equivalents				383,255
Unallocated restricted and pledged deposits				652,010
Unallocated corporate assets				
– Leasehold land and building				212,638
– Other corporate assets				19,438
Consolidated total assets				10,357,027
Liabilities				
Reportable segment liabilities	6,293,360	6,980	510,846	6,811,186
Reconciliation:				
Income tax payable				5,378
Deferred tax liabilities				168,781
Derivative financial liabilities				12,573
Unallocated bank and other borrowings				1,839,183
Unallocated corporate liabilities				10,921
Consolidated total liabilities				8,848,022

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. SEGMENT REPORTING (continued)

	Property development *RMB'000*	Property investment *RMB'000*	Property management *RMB'000*	Total *RMB'000*
Year ended 31 December 2014				
Segment revenue				
Reportable segment revenue	118,345	22,448	29,443	170,236
Elimination of intra-segment revenue	–	(6,735)	(5,631)	(12,366)
Consolidated revenue from external customers	118,345	15,713	23,812	157,870
Segment results	(75,774)	12,648	(861)	(63,987)
Reconciliation:				
Unallocated corporate net expenses				(21,937)
				(85,924)
Fair value changes in investment properties	–	(38,822)	–	(38,822)
Write-down of properties under development	(38,759)	–	–	(38,759)
Gain from bargain purchase	–	–	1,600	1,600
Fair value changes in derivative financial asset/liabilities				2,245
Loss on disposal of subsidiaries, net of tax				(15,830)
Finance costs				(1,871)
Finance income				9,035
Consolidated loss before income tax				(168,326)
Other segment information:				
Depreciation and amortisation	(893)	(1,023)	(1,677)	(3,593)
Impairment loss on trade and other receivables	–	–	(236)	(236)
Additions to properties under Tianhe project	8,960	–	–	8,960
Additions to properties under development	2,215,687	–	–	2,215,687
Capital expenditure	2,422	2,207	182	4,811
As at 31 December 2014				
Assets and liabilities				
Assets				
Reportable segment assets	5,333,788	565,894	48,013	5,947,695
Reconciliation:				
Short-term investments				244,000
Cash and cash equivalents				201,105
Unallocated restricted and pledged deposits				297,200
Unallocated corporate assets				
– Leasehold land and building				219,293
– Other corporate assets				15,673
Consolidated total assets				6,924,966
Liabilities				
Reportable segment liabilities	3,797,927	10,174	14,418	3,822,519
Reconciliation:				
Income tax payable				64,971
Deferred tax liabilities				169,048
Derivative financial liabilities				32
Unallocated bank and other borrowings				1,113,716
Unallocated corporate liabilities				19,066
Consolidated total liabilities				5,189,352

Information about major customers

None of the customers of the Group contributed more than 10% of the Group's revenue for the year ended 31 December 2015 and 2014.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

7. REVENUE

Revenue represents the aggregate of the net invoiced amounts received and receivable from property development, property investment and property management services earned by the Group, and net of sales related taxes. The amounts of each significant category of revenue recognised during the year are as follows:

	2015 *RMB'000*	2014 *RMB'000*
Sale of properties	**269,288**	116,056
Rental income	**18,383**	18,002
Property management services	**18,650**	23,812
	306,321	157,870

8. FINANCE COSTS AND INCOME

	2015 *RMB'000*	2014 *RMB'000*
Finance costs:		
Interest on bank and other borrowings		
– wholly repayable within five years	**233,956**	204,363
– wholly repayable after five years	**11,774**	2,585
	245,730	206,948
Less: Amount capitalised as properties under development		
Interest on bank and other borrowings	**(243,917)**	(205,077)
	1,813	1,871
Other borrowing costs	**26,569**	29,431
Less: Amount capitalised as properties under development	**(26,569)**	(29,431)
	–	–
Finance costs charged to profit or loss	**1,813**	1,871
Finance income:		
Bank interest income	**9,072**	5,932
Interest income on short-term investments	**11,814**	3,094
Interest income on loan to a non-controlling shareholder of a subsidiary	**312**	–
Other interest income	**–**	9
Finance income credited to profit or loss	**21,198**	9,035

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

8. FINANCE COSTS AND INCOME (continued)

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 10.8% (2014: 12.4%), which is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the year, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

9. LOSS BEFORE INCOME TAX

Loss before income tax for the year has been arrived at after charging/(crediting):

	2015	2014
	RMB'000	*RMB'000*
Cost of properties sold	**263,105**	115,015
Write-down of properties under development/properties held for sale	**20,024**	38,759
Cost of inventories recognised in profit or loss	**283,129**	153,774
Staff costs, including directors' emoluments	**73,854**	52,966
Auditor's remuneration		
– current year	**793**	887
– over-provision for prior year	**–**	(40)
– non-audit services	**478**	445
Depreciation of property, plant and equipment	**13,178**	9,110
Less: Amount capitalised as properties under development	**(92)**	(36)
Depreciation charged to profit or loss	**13,086**	9,074
Amortisation of leasehold land	**3,407**	3,407
Depreciation and amortisation charged to profit or loss	**16,493**	12,481
Loss on disposal of property, plant and equipment	**–**	57
Minimum lease payments under operating lease in respect of:		
– rented office premises	**574**	1,378
– rented other premises	**499**	579
Unrealised exchange loss	**69,026**	972
Impairment loss on trade and other receivables	**292**	236
Bad debts recovered	**(82)**	–
Direct operating expenses arising from investment properties that generated rental income	**2,821**	5,041
Direct operating expenses arising from investment properties that did not generate rental income	**192**	486

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

10. STAFF COSTS

	2015	2014
	RMB'000	*RMB'000*
Staff costs (including directors' emoluments) comprise:		
Basic salaries and other benefits	**90,270**	70,226
Bonuses	**6,500**	2,106
Equity-settled share-based payment expenses	**6,546**	907
Contributions to defined contribution pension plans	**4,946**	3,647
	108,262	76,886
Less: Amount capitalised as properties under development	**(34,408)**	(23,920)
Staff costs charged to profit or loss	**73,854**	52,966

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

11. DIRECTORS' EMOLUMENTS

The aggregate amounts of the directors' emoluments disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance (Cap. 622) (the Ordinance) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) (the Regulation) are as follows:

	Fees	Salaries and other benefits	Bonuses	Equity-settled share-based payment expenses	Contributions to defined contribution pension plan	Total
	RMB'000	*RMB'000* (note (a))	*RMB'000* (note (b))	*RMB'000*	*RMB'000*	*RMB'000*
2015						
Executive directors						
YU Pan	**–**	**2,036**	**498**	**–**	**14**	**2,548**
WEN Xiaobing	**96**	**1,730**	**288**	**876**	**64**	**3,054**
WONG Lok	**–**	**213**	**–**	**–**	**10**	**223**
JIANG Jing (appointed on 1 July 2015)	**49**	**440**	**73**	**–**	**39**	**601**
Non-executive director						
ZHONG Guoxing	**–**	**–**	**–**	**–**	**–**	**–**
Independent non-executive directors						
CHOY Shu Kwan	**192**	**–**	**–**	**67**	**–**	**259**
CHENG Wing Keung, Raymond	**192**	**–**	**–**	**67**	**–**	**259**
CHUNG Lai Fong	**192**	**–**	**–**	**67**	**–**	**259**
	721	**4,419**	**859**	**1,077**	**127**	**7,203**
2014						
Executive directors						
YU Pan	–	1,906	378	–	14	2,298
WEN Xiaobing	95	1,763	–	245	52	2,155
WONG Lok	–	210	–	–	10	220
Non-executive director						
ZHONG Guoxing	–	–	–	–	–	–
Independent non-executive directors						
CHOY Shu Kwan	174	–	–	–	–	174
CHENG Wing Keung, Raymond	174	–	–	–	–	174
CHUNG Lai Fong	174	–	–	–	–	174
	617	3,879	378	245	76	5,195

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

11. DIRECTORS' EMOLUMENTS (continued)

Notes:

(a) Salaries and other benefits included basic salaries, housing and other allowances and benefits-in-kind;

(b) Bonuses were not contractual but were discretionarily provided based on the Directors' performance. The amounts of entitlement were subject to approval by the remuneration committee of the Company; and

(c) Mr. WEN Xiaobing acted as chief executive of Guangzhou head office and his emoluments for the period are included in note 12 below.

There was no arrangement under which a Director has waived or agreed to waive any emoluments during the current and prior years.

12. EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT

Of the five individuals with the highest emoluments in the Group during the year, two (2014: two) are Director whose emoluments are included in note 11 above. The emoluments of the remaining three (2014: three) are as follows:

	2015	2014
	RMB'000	*RMB'000*
Basic salaries and other benefits	**4,192**	3,889
Bonuses	**894**	379
Equity-settled share-based payment expenses	**1,964**	410
Contributions to defined contribution pension plans	**143**	118
	7,193	4,796

Their emoluments are within the following bands:

	Number of individuals	
	2015	2014
RMB838,001 to RMB1,257,000 (equivalent to Hong Kong dollars ("**HK$**") 1,000,001 to HK$1,500,000)	–	1
RMB1,257,001 to RMB1,676,000 (equivalent to HK$1,500,001 to HK$2,000,000)	–	1
RMB1,676,001 to RMB2,095,000 (equivalent to HK$2,000,001 to HK$2,500,000)	**1**	–
RMB2,095,001 to RMB2,513,000 (equivalent to HK$2,500,001 to HK$3,000,000)	**1**	1
RMB2,513,001 to RMB2,932,000 (equivalent to HK$3,000,001 to HK$3,500,000)	**1**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

12. EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT (continued)

The emoluments paid or payable to members of senior management (excluding the directors as disclosed in note 11) are within the following bands:

	Number of senior management	
	2015	2014
RMBNil to RMB838,000 (equivalent to HK$Nil to HK$1,000,000)	–	1
RMB838,001 to RMB1,257,000 (equivalent to HK$1,000,001 to HK$1,500,000)	**1**	2
RMB1,257,001 to RMB1,676,000 (equivalent to HK$1,500,001 to HK$2,000,000)	**1**	1
RMB1,676,001 to RMB2,095,000 (equivalent to HK$2,000,001 to HK$2,500,000)	**1**	–
RMB2,095,001 to RMB2,513,000 (equivalent to HK$2,500,001 to HK$3,000,000)	**1**	1
RMB2,513,001 to RMB2,932,000 (equivalent to HK$3,000,001 to HK$3,500,000)	**1**	–

13. INCOME TAX EXPENSE/(CREDIT)

	2015	2014
	RMB'000	*RMB'000*
Current tax		
Hong Kong profits tax	–	–
PRC corporate tax		
– current year	**233**	532
– write-off of provisional corporate income taxes	**7,576**	–
PRC LAT		
– current year	**9,471**	1,372
– write-off of provisional LAT	**6,768**	–
	24,048	1,904
Deferred tax		
– current year	**(267)**	(10,250)
Total income tax expense/(credit)	**23,781**	(8,346)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

No provision for Hong Kong profits tax has been made for the year ended 31 December 2015 (2014: Nil) as the Group has no estimated assessable profits in respect of operation in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% (2014: 16.5%) for the year.

Enterprise income tax arising from other regions of the PRC is calculated at 25% (2014: 25%) of the estimated assessable profits.

The provision of PRC LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided, as appropriate, at ranges of progressive rates from 30% to 60% on the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditure.

The income tax expense for the year can be reconciled to the loss before income tax per the consolidated statement of profit or loss as follows:

	2015	2014
	RMB'000	*RMB'000*
Loss before income tax	**(208,483)**	(168,326)
Tax calculated at the applicable income tax rate of 25% (2014: 25%)	**(52,121)**	(42,082)
Effect of different tax rates of entities operating in other jurisdictions	**16,583**	11,954
Tax effect of expenses not deductible for tax purposes	**16,158**	17,663
Tax effect of revenue not subject to tax	**(948)**	(478)
Tax effect of tax losses not recognised	**13,580**	4,023
Utilisation of tax losses previously not recognised	**–**	(3,648)
Tax effect of LAT	**16,239**	1,372
Under-provision in respect of prior years	**7,578**	–
Tax effect of other temporary differences not recognised	**6,783**	2,146
Others	**(71)**	704
Income tax expense/(credit)	**23,781**	(8,346)

14. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of RMB192,675,000 (2014: RMB121,986,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

15. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the loss attributable to ordinary shareholders of the Company and the following data:

	2015	2014
	RMB'000	*RMB'000*
Loss for the purposes of basic and diluted loss per share	**(211,769)**	(141,252)
	Number of shares	
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**2,216,531**	2,216,531

For the year ended 31 December 2015 and 2014, basic loss per share is same as diluted loss per share as any effect from the Company's options is anti-dilutive.

16. DIVIDENDS

The Company does not have distributable reserve available for payment of dividend for the year ended 31 December 2015 (2014: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost				
At 1 January 2014	153,072	4,855	6,474	164,401
Additions	–	7,467	1,571	9,038
Acquired through business combinations	–	163	26	189
Transfer from investment properties *(Note 18)*	116,092	–	–	116,092
Disposal of subsidiaries	–	(740)	(438)	(1,178)
Written off/disposals	–	(688)	–	(688)
Exchange differences	–	1	(7)	(6)
At 31 December 2014 and at 1 January 2015	**269,164**	**11,058**	**7,626**	**287,848**
Additions	**–**	**1,187**	**1,762**	**2,949**
Written off/disposals	**–**	**(51)**	**–**	**(51)**
Exchange differences	**4,593**	**242**	**134**	**4,969**
At 31 December 2015	**273,757**	**12,436**	**9,522**	**295,715**
Accumulated depreciation				
At 1 January 2014	363	2,386	2,202	4,951
Disposal of subsidiaries	–	(582)	(384)	(966)
Depreciation for the year	5,711	2,066	1,333	9,110
Amortisation for the year	3,407	–	–	3,407
Written off/disposals	–	(631)	–	(631)
Exchange differences	(15)	–	(1)	(16)
At 31 December 2014 and at 1 January 2015	**9,466**	**3,239**	**3,150**	**15,855**
Depreciation for the year	**8,978**	**2,520**	**1,680**	**13,178**
Amortisation for the year	**3,407**	**–**	**–**	**3,407**
Written off/disposals	**–**	**(51)**	**–**	**(51)**
Exchange differences	**458**	**80**	**63**	**601**
At 31 December 2015	**22,309**	**5,788**	**4,893**	**32,990**
Net book value				
At 31 December 2015	**251,448**	**6,648**	**4,629**	**262,725**
At 31 December 2014	259,698	7,819	4,476	271,993

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For the year ended 31 December 2015

18. INVESTMENT PROPERTIES

	2015 *RMB'000*	2014 *RMB'000*
At beginning of year	**556,533**	710,826
Transfer to property, plant and equipment *(Note 17)*	**–**	(116,092)
Changes in fair value	**6,736**	(38,822)
Exchange differences	**6,789**	621
At end of year	**570,058**	556,533

Details of assessment of the fair value are set out in note 25.

19. PROPERTIES UNDER TIANHE PROJECT

Details of the project are set out in note 34. The following table reconciles the movement of the carrying amount of costs of the Tianhe Project during the year:

	2015 *RMB'000*	2014 *RMB'000*
At beginning of year	**777,090**	768,130
Additions of other development costs	**9,078**	8,960
At end of year	**786,168**	777,090

The construction of Tianhe project will be completed and delivered to the customer in 2016, therefore, it is reclassified to current as at 31 December 2015.

20. GOODWILL

	2015 *RMB'000*	2014 *RMB'000*
Cost		
At beginning of year	**68,664**	68,664
At end of year	**68,664**	68,664
Accumulated impairment loss		
At beginning of year	**55,110**	55,110
At end of year	**55,110**	55,110
Net book value		
At end of year	**13,554**	13,554

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

20. GOODWILL (continued)

Goodwill acquired through business combinations has been allocated to the following CGU, namely property development, for impairment testing:

Project	Attributable CGU	2015 *RMB'000*	2014 *RMB'000*
Zhoutouzui Project	Property development *(Note)*	**13,554**	13,554

Note: Zhoutouzui Project refers to the development project located at Zhoutouzui, Haizhu District, Guangzhou, the PRC. The Group acquired 51% interest in the Zhoutouzui Project in 2006 and further increased its interest to 100% through a step-up acquisition which was completed on 4 June 2007. The carrying amount of property development costs in relation to the Zhoutouzui Project is included in properties under development (as disclosed in note 23).

Impairment test for goodwill

The goodwill relates to the CGU within the operational segment of property development. The recoverable amount of the CGU is determined using value-in-use calculation. This calculation uses cash flow projection based on financial budget of this CGU which is approved by management covering a five-year period with key assumptions including revenue, direct costs and other operating expenses being referenced to past performance and management's reasonable expectations on the business outlook of this CGU.

Key assumptions are as follows:

CGU	Discount rate	Pre-tax operating margin
2015		
Property development	**8.00%**	**31.70%**
2014		
Property development	8.00%	25.01%

Discount rate is based on the Group's management's assessment of specific risks related to the CGU. Operating margin is based on the management's perception of the market outlook.

No impairment loss is provided for the year ended 31 December 2015 (2014: Nil). The Directors performed an impairment test for the goodwill and concluded that the CGU of property development in relation to the Zhoutouzui Project demonstrates sufficient cashflow projection that justifies the carrying value of the goodwill. Hence, the management did not consider impairment of goodwill necessary.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

21. JOINT ARRANGEMENT

廣州市譽城房地產開發有限公司 (Guangzhou Yucheng Real Estate Development Company Limited) (“**GZ Yucheng**”), a sino-foreign cooperative company with limited liabilities established in the PRC for a renewal term of 15 years commencing on 31 March 2003 by Guangzhou Zhoutouzui Development Limited (“**GZ Zhoutouzui**”) and is accounted for as a joint operation in the Group’s financial statements. The Group’s accounts for its share of assets, liabilities and profit or loss in relation to the joint operation in accordance with the policy are set out in note 4(c). Details of GZ Yucheng are as follows:

Place and date of establishment	Registered capital	Paid-up capital	Principal activity
PRC, 31 March 2003	US$100,000,000	US$100,000,000 (approximately RMB656,641,000) (2014: US$90,000,000 (approximately RMB595,487,000))	Property development in the PRC

Under the terms of the agreement entered into by the parties, (i) GZ Zhoutouzui is obligated for 100% of the capital of and investment in GZ Yucheng; and (ii) another party, 廣州港集團有限公司 (Guangzhou Port Group Co., Limited) (“**Port Authority**”), will be entitled to 28% of the total gross floor area of the project upon completion of the proposed development and after which, Port Authority will not be entitled to any profit or loss generated by GZ Yucheng; and (iii) GZ Zhoutouzui will be entitled to 72% of the total gross floor area of the project upon completion of the proposed development and the entire profit or loss to be generated or incurred by GZ Yucheng. GZ Zhoutouzui is also entitled to all assets other than the 28% properties to be allocated to Port Authority, and obliged to bear all the liabilities of GZ Yucheng under the arrangement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

22. CONSIDERATION RECEIVABLE

	Gross consideration	(Settled)/ Paid	**2015** ***RMB'000***	2014 *RMB'000*
Gross sale consideration for the equity interest plus net assets of Huan Cheng (net of relocation cost of fire-station borne by the Group)	1,128,273	(988,273)	**140,000**	140,000
Less: Estimated development costs and finance costs borne by the Group	(55,000)	20,000	**(35,000)**	(35,000)
Amortised costs	1,073,273	(968,273)	**105,000**	105,000
Amount due within one year included in current assets	(1,073,273)	968,273	**(105,000)**	–
Amount due after one year	–	–	**–**	105,000

The receivable relates to the outstanding instalments receivable from the purchaser, Hainan Realty, for the disposal of the equity interests in Huan Cheng that is unsecured and interest-free. An estimated total sum of approximately RMB140,000,000 is receivable from Hainan Realty before taking into account the estimated costs to be borne by the Group pursuant to the agreement, including estimated finance costs totalling RMB35,000,000 to be borne by the Group. The final instalment, estimated at a present value of approximately RMB105,000,000 (2014: RMB105,000,000), is receivable when the construction of the properties is completed, which is expected to occur within twelve months from the end of reporting period.

23. PROPERTIES UNDER DEVELOPMENT

Properties under development in the PRC are as follows:

	2015 ***RMB'000***	2014 *RMB'000*
Land use rights *(Note)*	**2,091,426**	1,393,411
Premium paid for the acquisition of the interest of the land, demolition and settlement costs	**637,822**	638,392
Construction costs	**2,637,548**	1,320,605
Others	**809,040**	514,635
	6,175,836	3,867,043
Less: Accumulated write-down in value	**(16,559)**	(38,759)
	6,159,277	3,828,284

Note:

Land use rights comprise cost of acquiring rights to using certain pieces of land which are all located in the PRC for property development over fixed periods of time as defined within the range between 40 and 70 years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

23. PROPERTIES UNDER DEVELOPMENT (continued)

The following table reconciles the movement of the carrying amount of properties under development during the year:

	2015 RMB'000	2014 RMB'000
At beginning of year	**3,828,284**	2,262,709
Additions		
– Capitalisation of depreciation of property, plant and equipment	**92**	36
– Capitalisation of finance costs	**270,486**	234,508
– Land and other development costs	**2,395,868**	2,215,687
	2,666,446	2,450,231
Completed properties transferred to properties held for sale	**(327,274)**	(231,403)
Impairment loss charged to profit or loss	**(8,179)**	(38,759)
Disposal of a subsidiary	**–**	(614,494)
At end of year	**6,159,277**	3,828,284

24. PROPERTIES HELD FOR SALE

	2015 RMB'000	2014 RMB'000
Completed properties held for sale	**189,695**	125,526
Less: Impairment loss charged to profit or loss	**(11,845)**	–
	177,850	125,526

All completed properties held for sale as at 31 December 2015 were located in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

25. ANALYSIS OF PROPERTIES

(a) The analysis of the net book value of completed properties is as follows:

	2015	2014
	RMB'000	*RMB'000*
Medium-term land lease in the PRC and Hong Kong		
– Investment properties	**570,058**	556,533
– Leasehold land and building	**68,640**	70,940
Long-term land lease in the PRC		
– Leasehold land and building	**182,808**	188,758
– Properties held for sale	**177,850**	125,526
	999,356	941,757

(b) All of the Group's completed properties were revalued as at 31 December 2015 and 31 December 2014. The valuations were carried out by DTZ Debenham Tie Leung International Property Advisers (Guangzhou) Co., Ltd. and RHL Appraisal Limited, independent valuers who hold recognised and relevant professional qualifications and have relevant experience in the location and category of the completed properties being valued. The Group's management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each reporting date.

(c) As at 31 December 2015, the Group's investment properties and leasehold land and building with carrying amounts as disclosed in note 44 are pledged to secure bank and other borrowings of the Group, as disclosed in notes 33(a) and 33(c). As at 31 December 2014, the Group's investment properties, leasehold land and building and properties held for sale with carrying amounts as disclosed in note 44 are pledged to secure bank and other borrowings of the Group, as disclosed in notes 33(a) and 33(c).

(d) For the year ended 31 December 2015, the rental income from investment properties and properties held for sale amounted to RMB18,244,000 (2014: RMB15,713,000) and RMB139,000 (2014: RMB2,289,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

25. ANALYSIS OF PROPERTIES (continued)

(e) Fair value

The following table gives information about how the fair values of investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorized (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Nature	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value	Sensitivity
2015					
Investment properties in Hong Kong	Level 2	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property.	N/A	N/A	N/A
Investment properties in the PRC	Level 3	Income capitalization approach The key inputs are: (1) Capitalisation rate; (2) Daily unit rent	(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.75%.	The higher the capitalisation rate, the lower the fair value.	If the capitalisation rate to the valuation model is 1% higher/lower, while all the other variables were held constant, the carrying value of Property would decrease by approximately RMB43,000,000 and increase by approximately RMB50,000,000 respectively.
			(b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB400/sq.m./day for the base level.	The higher the daily unit rent, the higher the fair value.	If the daily unit rent to the valuation model is 5% higher/lower, while all the other variables were held constant, the carrying value would increase by approximately RMB19,000,000 and decrease by approximately RMB19,000,000 respectively.
2014					
Investment properties in Hong Kong	Level 2	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property.	N/A	N/A	N/A
Investment properties in the PRC	Level 3	Income capitalization approach The key inputs are: (1) Capitalisation rate; (2) Daily unit rent	(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.75%.	The higher the capitalisation rate, the lower the fair value.	If the capitalisation rate to the valuation model is 1% higher/lower, while all the other variables were held constant, the carrying value of Property would decrease by approximately RMB44,000,000 and increase by approximately RMB52,000,000 respectively.
			(b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB394/sq.m./day for the base level.	The higher the daily unit rent, the higher the fair value.	If the daily unit rent to the valuation model is 5% higher/lower, while all the other variables were held constant, the carrying value would increase by approximately RMB18,000,000 and decrease by approximately RMB18,000,000 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

25. ANALYSIS OF PROPERTIES (continued)

(e) Fair value (continued)

The fair value of investment properties in the PRC as at 31 December 2015 and 31 December 2014 were measured using valuation techniques with significant unobservable inputs and hence were classified as Level 3 of the fair value hierarchy.

Fair value measurements and valuation processes

In estimating the fair value of the Group's investment properties, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation of the Group's investment properties. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. The Group will first consider and adopt Level 2 inputs where inputs can be derived observable quoted prices in the active market. When Level 2 inputs are not available, the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the board of Directors of the Company.

The movements during the year in the balance of Level 3 fair value measurements are as follows:

	2015	2014
	RMB'000	*RMB'000*
Opening balance (level 3 recurring fair value)	**447,000**	530,000
Transfer to property, plant and equipment	**–**	(42,000)
Gains/(losses): included in other gains and losses	**1,000**	(41,000)
Closing balance (level 3 recurring fair value)	**448,000**	447,000

26. LOAN TO A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

The balance is unsecured, interest bearing at floating rate according to 110% of the 1-year Lending rate quoted by the People's Bank of China and repayable in September 2016 and is provided to shareholders of a subsidiary at an amount pro-rata to their capital contributed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

27. TRADE AND OTHER RECEIVABLES

	2015	2014
	RMB'000	*RMB'000*
Current or less than 1 month	**881**	1,503
1 to 3 months	**462**	338
More than 3 months but less than 12 months	**589**	106
More than 1 year	**114**	78
Trade receivables, net of impairment	**2,046**	2,025
Refundable earnest money in a development project	–	10,000
Surety deposit paid for securing due performance of the construction of a hotel in Yongzhou	–	32,000
Refundable construction costs	**19,159**	–
Tender deposit in development project	**30,800**	6,800
Prepaid construction costs	**110,636**	239,326
Prepaid finance costs	**141**	10,570
Prepaid business taxes and surcharges	**200,305**	73,756
Maintenance funds paid on behalf of properties owners	**41,161**	16,788
Interest receivable on bank deposits/short-term investments	**4,941**	6,624
Other deposits, prepayments and other receivables	**86,785**	69,148
	495,974	467,037

Notes:

(a) The Group has a policy of allowing an average credit period of 8 to 30 days to its trade customers. The Group's formal credit policy in place is to monitor the Group's exposure to credit risk through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount.

(b) The analysis of the Group's trade receivables which are past due but not impaired is as follows:

	2015	2014
	RMB'000	*RMB'000*
1 to 3 months past due	**462**	338
More than 3 months but less than 12 months past due	**589**	106
More than 1 year past due	**114**	78
	1,165	522

The Group's trade receivables which are neither past due nor impaired relate to a number of tenants of the Group's properties for whom there is no recent history of default.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

27. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

(b) (continued)

The balances of other classes within trade and other receivables of the Group are neither past due nor impaired. They mainly comprise prepaid construction costs paid to contractors on existing projects, prepaid taxes and maintenance funds paid to government on behalf of property buyers. Management considers that the credit risk associated with these receivables is minimal.

The movements of impairment loss on trade receivables of the Group are as follows:

	2015	2014
	RMB'000	*RMB'000*
At beginning of year	**1,193**	437
Acquired through business combination	**–**	520
Impairment loss recognised	**292**	236
Bad debts recovered	**(82)**	–
At end of year	**1,403**	1,193

28. SHORT-TERM INVESTMENTS

The Group invested in certain saving plans issued by bank on mainland China with investment values amounting to RMB460,000,000 which were used to secure two back-to-back letters of credit issued by a local bank in the PRC to a Hong Kong-based bank and New York-based bank to guarantee repayment by Guangzhou Tianyu Property Management Company Limited ("**Tianyu Property Management**") for money market loans of US$31,000,000 (approximately RMB201,302,000) and US$39,600,000 (approximately RMB257,147,000) respectively. The two saving plans carry a return respectively at a fixed rate of 3.5% and 3.6% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

29. RESTRICTED AND PLEDGED DEPOSITS

	Notes	2015 RMB'000	2014 RMB'000
To secure for:			
– letter of credit issued by banks to guarantee repayment of money market loans	*(a)*	**652,010**	297,200
– the payment of construction cost of development projects	*(b)*	**261,754**	33,042
– others		**8,965**	4,602
		922,729	334,844

Notes:

(a) As at 31 December 2015, to secure a back-to-back letter of credit issued by a local bank in the PRC to a Macau-based bank to guarantee repayment of the latter's money market loan facility granted to a subsidiary in a total of HK$750,000,000 (approximately RMB628,350,000) of which HK$233,000,000 (approximately RMB195,207,000) was drawn down on 4 January 2016, bank deposits with an aggregate balance of RMB652,010,000 were placed in the local bank in the PRC.

(b) The balance represents deposits received from buyers of pre-sold properties. These deposits shall be released only to pay construction costs of the development projects.

30. CASH AND CASH EQUIVALENTS

	2015 RMB'000	2014 RMB'000
Short-term bank deposits	**652,010**	297,200
Cash at bank and in hand	**653,974**	238,749
	1,305,984	535,949
Less: Restricted and pledged deposits *(Note 29)*	**(922,729)**	(334,844)
	383,255	201,105

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

31. TRADE AND OTHER PAYABLES

	2015	2014
	RMB'000	*RMB'000*
Current or less than 1 month	1,485	–
1 to 3 months	477	242
More than 3 months but less than 12 months	5	226
More than 12 months	198	153
Total trade payables	2,165	621
Construction costs payable	648,437	116,474
Tender receivable from the suppliers	49,397	48,499
Land cost payable	352,511	–
Receipts in advance, rental and other deposits from buyers, customers and/or tenants	16,404	13,874
Receipts in advance from government on a project clearance	54,630	–
Compensation payable	11,250	–
Accrued business taxes and surcharges	19,685	2,546
Interest payable on bank and other borrowings	6,472	18,743
Other accrued expenses and other payables	39,782	28,017
	1,200,733	228,774

32. FINANCIAL GUARANTEE CONTRACT

During the year ended 31 December 2015 and 31 December 2014, the Company provided corporate guarantees to secure for the repayment of subsidiaries' borrowings as disclosed in notes 33. The Directors consider that the exposure of these guarantees is minimal, and therefore no liabilities associated with the financial guarantee contracts are recognised as at 31 December 2015 and 31 December 2014.

As at 31 December 2015, the Group provides guarantees to the extent of approximately RMB1,178,900,000 (2014: RMB140,111,000) in respect of credit facilities granted by certain banks relating to the mortgage loans arranged for some buyers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these buyers, the Group is responsible for repaying the outstanding mortgage principal, accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take legal action against the defaulted buyers for losses and take possession of the related properties from the defaulted buyers. Such guarantees shall terminate upon delivery of properties and issuance of relevant property ownership certificates to the property buyers. The management, with its assessment of the current and outlook of the market, perceives that the possibility of default in mortgage loans by home buyers is remote and, in the event of default, the liabilities caused to the Group will be minimal as the loss will be adequately mitigated by the proceed recovered from the sales of the repossessed properties. Accordingly, no provision is made in the accounts for the financial guarantees.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL LIABILITIES

	Notes	2015 RMB'000	2014 RMB'000
Bank and other borrowings			
Secured bank borrowings:			
(i) term loans, revolving loans and construction loans	(a)	**538,483**	728,903
(ii) money market loans	(b)	**891,591**	472,825
Other secured borrowings:			
(i) trust loan	(c)	**500,000**	500,000
(ii) entrusted loan	(d)	**–**	–
(iii) secured bonds	(e)	**466,563**	244,642
Unsecured borrowings:			
(i) unsecured bonds	(f)	**251,185**	104,457
(ii) other borrowings	(g)	**112,000**	224,000
		2,759,822	2,274,827
Derivative financial asset			
– Company Redemption Rights on Unsecured Bonds	(f)	**(37)**	–
Derivative financial liabilities			
– Exchange Rights, Extension Rights and Holder Repurchase Rights on Secured Bonds	(e)	**5,877**	32
– Holder Redemption Rights on Unsecured Bonds	(f)	**6,696**	–
		12,573	32
Amounts due within one year included in current liabilities		**–**	(32)
Amounts due after one year		**12,573**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL LIABILITIES (continued)

Notes:

(a) At 31 December 2015, all the bank borrowings are secured by mortgages of ownership titles of properties under development and investment properties with an aggregate carrying amount of approximately RMB3,024,205,000. At 31 December 2014, all the bank borrowings are secured by mortgages of ownership titles of properties under development, properties held for sale and investment properties with an aggregate carrying amount of approximately RMB2,537,109,000. The bank loans carry interest at variable market rates ranging from 2.75% to 5.23% per annum (2014: 2.75% to 7.38% per annum) as at 31 December 2015. The Company provides corporate guarantee to secure for the repayment of a term loan and revolving loans with carrying value of approximately RMB117,843,000 (2014: RMB113,792,000), and a construction loan of approximately RMB420,640,000 (2014: RMB470,111,000) is secured by the personal guarantee provided by Mr. YU Pan and his spouse. Other than a term loan of approximately RMB67,575,000 (2014: RMB66,458,000) which is repayable by monthly instalment until 2033, bank borrowings in an aggregate amount of approximately RMB470,908,000 (2014: RMB662,445,000) are repayable in 2015 and 2016.

(b) As at 31 December 2015, the money market loans in aggregate of approximately RMB891,591,000 (2014: RMB472,825,000) extended by three banks in Macau, New York and Hong Kong were secured respectively by bank deposits of RMB652,010,000, short-term investments in saving plans issued by a bank in the PRC of RMB260,000,000 and RMB200,000,000. In addition to the pledge of deposits, the Company provides corporate guarantees to secure for the repayment of the money market loans of RMB458,448,000 (2014: RMB189,689,000). The money market loans carry variable interests at the rate from 1.32% to 2.7% per annum (2014: 2.93% to 3.26% per annum), and are repayable in 2016.

(c) As at 31 December 2015, some property units at Tianyu Garden Phase II and the office premises at HNA Tower, both in Tianhe District, Guangzhou, with an aggregate carrying amount of approximately RMB591,998,000 (2014: RMB595,353,000) are mortgaged to a financial institution for a trust loan of RMB500,000,000 granted to a subsidiary. The loan is secured by corporate guarantee provided by the Company, certain subsidiaries of the Group and a company controlled by Mr. YU Pan and personal guarantee provided by Mr. YU Pan. The trust loan carries fixed rate at 14% per annum and was fully repaid on 18 January 2016.

(d) As at 30 December 2015, Guangzhou Yu Jun Consulting Service Company Limited (“**GZ Yu Jun**”) has entrusted a third party entity to borrow bank borrowings on behalf of GZ Yu Jun whose property units are mortgaged to a bank for bank loan facility of RMB27,000,000 granted to the Company. The loan facility is also secured by corporate guarantee of RMB35,000,000 provided by the Company and personal guarantee given by Mr. YU Pan. The entrusted loan carries interest at variable market rate at 10.0% per annum and is repayable in December 2016. As at 31 December 2015, the entrusted loan facility was not drawn down.

(e) On 23 July 2015, Ample Mark Enterprises Limited (“**Ample Mark**”) extended a loan to the Company of HK$560,000,000 (RMB469,168,000) (the “**Loan**”) and subscribed for convertible bonds issued by the Company in an aggregate principle amount of HK$40,000,000 (RMB33,512,000) (the “**Convertible Bonds**”). The Loan bears interests at the rate of 10% per annum. The Loan has a term of two years and is repayable on 22 July 2017.

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33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL LIABILITIES (continued)

Notes: (continued)

(e) (continued)

The Convertible Bonds bear interests on the outstanding principal amount at the rate of 10% per annum which is payable every three (3) months. Pursuant to the terms and conditions of the instrument dated 23 July 2015, the convertible bondholders shall have the right to convert all or any part of the principal amount of the Convertible Bonds into shares at an initial conversion price of HK$1.036 per share (subject to adjustment) at any time on and after the issue date up to the maturity date of the Convertible Bonds. The Convertible Bonds has a term of two (2) years from the issue date extendable for a further two (2) years by the holders of the Convertible Bonds.

The Loan and the Convertible Bonds are amortised using the effective interest method by applying the effective interest rate of 16.17% per annum.

Pursuant to the two share charges both dated 23 July 2015, Fortunate Start Investments Limited, a wholly owned subsidiary of the Company, has charged all its rights, title and interest in GZ Zhoutouzui in favour of Ample Mark to secure the repayment of the Loan and the Convertible Bonds.

The movements of the Secured Bonds are as follows:

	RMB'000
Issue of the Secured Bonds, net of transaction costs	431,065
Accrued interest expense	28,403
Interest paid	(19,939)
Exchange differences	27,092
At 31 December 2015	**466,621**

In October 2013, the Company has issued secured bonds in a principal amount of HK$298,000,000 (approximately RMB235,092,000) (the "**Secured Bonds**"). Details of the Secured Bonds was set out in the Company's circular dated 18 October 2013. The Secured Bonds bear interests the rate of 10% per annum from the date of issue until the earlier of (i) the date on which the exchange rights are exercised, or (ii) the maturity date on 17 October 2015 (being the second anniversary of the date of the issuance of the Secured Bonds). The Company redeemed the Secured Bonds at approximately HK$327,800,000 (approximately RMB269,058,000) (being the redemption price of HK$405,280,000 less the Fee and the total amount of interest paid up to the maturity date of HK$59,600,000) on 16 October 2015.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL LIABILITIES (continued)

Notes: (continued)

(e) (continued)

The movements of the Secured Bonds are as follows:

	RMB'000
At 1 January 2014	224,034
Accrued interest expense	43,539
Interest paid	(23,582)
Exchange differences	651
At 31 December 2014 and 1 January 2015	**244,642**
Final redemption amount	**(269,058)**
Accrued interest expense	**37,953**
Interest paid	**(23,770)**
Exchange differences	**10,233**
At 31 December 2015	–

(f) In 2014, the Company issued unsecured bonds in an aggregate principal amount of HK$100,000,000 (RMB83,780,000) due in 2016 at a discount of 7% at the principal amount (the "**2016 Bonds**"). The 2016 Bonds carry interests at the rate of 10% per annum, which are payable quarterly in arrears, and will mature in 2016. The 2016 Bonds were amortised at the effective interest method by applying the effective interest rate of 18.4% per annum.

As at 31 December 2015, the Company has issued unsecured bonds with the respective principal amount in aggregate of HK$290,000,000 (RMB242,962,000) due on 12 September 2024 (the "**2024 Bonds**"), HK$570,000,000 (RMB477,546,000) due on 14 November 2031 (the "**2031 Bonds**") and HK$20,000,000 (RMB16,756,000) due on 14 November 2032 (the "**2032 Bonds**"). The 2024 Bonds carry coupon interest at 7.5%, 2031 Bonds and 2032 Bonds carry coupon interest at 8.0% per annum all of which were payable in advance upon the issue of the bonds. In addition, these unsecured bonds are subject to an annual interest of 0.1% per annum payable annually on 14 October (for the 2024 Bonds) and 14 November (for the 2031 Bonds and 2032 Bonds) until maturity. The Bonds were amortised at the effective interest method by applying the effective interest rate ranging from 11.75% to 13.10% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL LIABILITIES (continued)

Notes: (continued)

(f) (continued)

The movements of the bonds are as follows:

	2016 Bonds	2024 Bonds	2031 Bonds	2032 Bonds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Nominal value	**100,000**	**290,000**	**570,000**	**20,000**	**980,000**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Nominal value	**83,780**	**242,962**	**477,546**	**16,756**	**821,044**
Liability component of carrying amount					
Issue of the bonds, net of transaction costs	73,649	75,835	46,005	–	195,489
Discounts and interest paid	(10,490)	(51,455)	(39,106)	–	(101,051)
Accrued interest expense	9,566	654	61	–	10,281
Exchange differences	(130)	(111)	(21)	–	(262)
At 31 December 2014 and 1 January 2015	**72,595**	**24,923**	**6,939**	**–**	**104,457**
Issue of the bonds, net of transaction costs	**–**	**143,019**	**396,348**	**16,011**	**555,378**
Discounts and interest paid	**(7,995)**	**(91,763)**	**(331,817)**	**(13,574)**	**(445,149)**
Accrued interest expense	**13,817**	**5,654**	**4,307**	**–**	**23,778**
Exchange differences	**4,675**	**4,324**	**3,685**	**37**	**12,721**
At 31 December 2015	**83,092**	**86,157**	**79,462**	**2,474**	**251,185**

(g) The balances represent unsecured loans advanced from third parties. The loans carry interest at the fixed rate of 15% per annum and are repayable in November 2017.

At the end of the reporting period, the maturity profile of the bank and other borrowings are as follows:

	2015	2014
	RMB'000	*RMB'000*
On demand or within one year	**2,013,166**	1,305,610
More than one year, but not exceeding two years	**578,563**	937,356
More than two years, but not exceeding five years	**–**	–
After five years	**168,093**	31,861
	2,759,822	2,274,827
Amounts due within one year included in current liabilities	**(2,013,166)**	(1,305,610)
Amounts due after one year	**746,656**	969,217

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. CONSIDERATION FROM DISPOSAL OF TIANHE PROJECT

In July 2010, the Disposal Agreement for the transfer of the entire equity interest in Huan Cheng, the project company for the development of the Tianhe Project, was entered into between the Company, Yaubond Limited ("**Yaubond**") and HNA Hotel for a gross sale consideration (the "**Consideration**") of RMB1,090,000,000, subject to certain adjustments. Such adjustments represent adjustment on net assets transferred to HNA Hotel of RMB38,273,000 and future development costs and finance costs to be borne by the Group, which are estimated to be RMB20,000,000 and RMB35,000,000 respectively. Details of the adjustment mechanism to the Consideration and timing of the payment of the Consideration was set out in the Company's circular dated 19 August 2010 which is supplemented by a memorandum of understanding signed on 8 September 2010 by the contracting parties in relation to finance cost to be borne by the Group. Further on 20 October 2015, a supplemental agreement was entered into with Hainan Realty, Huan Cheng's current holding company, which stipulated that the parties agreed that the construction costs be revised as a result of variations in certain construction specifications requested by Huan Cheng, HNA Hotel and Hainan Realty, the completion of the project will be taken place on or before 30 June 2016. The management estimates that no adjustment is to be made to the consideration receivable as it perceives that HNA Hotel will waive the Company's responsibilities in the delays in the construction and the construction costs be revised as a result of variations in certain construction specifications requested by HNA Hotel. Based on the management's past experience in project management, its judgment on the current progress of construction, the management expects that the project will be duly completed within the extended timeline in 2016 at the revised construction costs.

The Directors foresee no overruns in construction costs in material aspects to which the Group is exposed, except that it will have to bear up to RMB20,000,000 for additional construction costs and any extra finance costs as a result any works delay as stipulated under the Disposal Agreement.

As at 31 December 2015, consideration from disposal of Tianhe Project was estimated to be approximately RMB990,360,000 (2014: RMB990,360,000).

The Directors consider that the Disposal Agreement constitutes an agreement for the sale of goods/services and the criteria for recognition of revenue set out in paragraph 14 of HKAS 18 "Revenue" apply. There are uncertainties about the due performance of the Group of certain obligations under the Disposal Agreement, and the costs to be deducted from the gross sale consideration caused by overruns in construction costs are still to be subject to variations to be agreed with HNA Hotel.

Based on the foregoing circumstances, the Directors are of the view that the revenue recognition criteria set out in HKAS 18 have not been fully satisfied and therefore the disposal of the assets and liabilities of the Tianhe Project is not recognised until when substantial part of the revenue can be ascertained reliably. The revenue and associated costs of the Tianhe Project are deferred until the construction is completed to a progress where the revenue can be reliably measured. Therefore, the net sale consideration is recorded as consideration from disposal of Tianhe Project as at 31 December 2015. The costs of the Tianhe Project are not derecognised, but instead included in properties under Tianhe Project in the consolidated statement of financial position as detailed in note 19.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

35. DEFERRED TAX LIABILITIES

Movements of the deferred tax liabilities are as follows:

	Revaluation of properties			
	Leasehold land and building *RMB'000*	Investment properties *RMB'000*	Properties under development *RMB'000*	Total *RMB'000*
At 1 January 2014	–	102,690	76,608	179,298
Reallocation	6,813	(6,813)	–	–
Charged to profit or loss	–	(10,250)	–	(10,250)
At 31 December 2014 and at 1 January 2015	**6,813**	**85,627**	**76,608**	**169,048**
Charged to profit or loss	**(517)**	**250**	**–**	**(267)**
At 31 December 2015	**6,296**	**85,877**	**76,608**	**168,781**

As at 31 December 2015, the Group have estimated unutilised tax losses of approximately RMB370,489,000 (2014: RMB302,247,000) for offsetting against future assessable profits. No deferred tax asset has been recognised in respect of these balances due to the unpredictability of future profit streams. The unrecognised tax losses include a balance of RMB100,053,000 (2014: 71,639,000) which may be carried forward indefinitely, and the remaining balance of RMB270,436,000 (2014: RMB230,608,000) will expire in 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

36. SHARE CAPITAL

(a) Authorised and issued share capital

	Number of shares			Nominal value			
	Ordinary share capital of HK$0.01 each '000	Convertible preference share capital of HK$0.01 each '000	Total '000	Ordinary share capital of HK$0.01 each HK$'000	Convertible preference share capital of HK$0.01 each HK$'000	Total HK$'000	Equivalent nominal value of ordinary share capital of HK$0.01 each RMB'000
Authorised:							
At 31 December 2014 (Audited) and 1 January 2015	29,000,000	1,000,000	30,000,000	290,000	10,000	300,000	311,316
Reclassification *(Note)*	1,000,000	(1,000,000)	–	10,000	(10,000)	–	–
At 31 December 2015	30,000,000	–	30,000,000	300,000	–	300,000	311,316
Issued and fully paid:							
Ordinary shares of HK$0.01 each							
At 31 December 2014, at 1 January 2015 and 31 December 2015	2,216,531	–	2,216,531	22,165	–	22,165	21,068

Note: All convertible preference share of HK$0.01 each in the authorized share capital of the Company was re-classified as the ordinary share of HK$0.01 each of the Company by a shareholder's resolution passed on 9 June 2015.

(b) Capital management policy

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it by adjusting applicable policies on dividend pay-out, return to shareholders and debt and equity raising or redemption, in the light of changes in economic conditions. There have been no material changes in these objectives and policies or processes during the current and prior years.

The Company monitors capital using gearing ratio, which is calculated as net debt to the summation of capital and net debt. Net debt includes bank and other borrowings, derivative financial liabilities and loans from non-controlling shareholders of a subsidiary less cash and cash equivalents and restricted bank deposits backing up the money market loans. Capital represents equity attributable to owners of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

36. SHARE CAPITAL (continued)

(b) Capital management policy (continued)

The gearing ratio as at the end of the reporting period is calculated based on the following:

	2015 RMB'000	2014 RMB'000
Total debt	**2,772,395**	2,274,859
Less: restricted bank deposits backing up the money market loans	**(652,010)**	(297,200)
Less: cash and cash equivalents	**(383,255)**	(201,105)
Net debt	**1,737,130**	1,776,554
Equity attributable to owners	**1,503,940**	1,710,054
Capital plus net debt	**3,241,070**	3,486,608
Gearing ratio (Net debt/Capital plus net debt)	**53.6%**	51.0%

37. RESERVES

	Share premium RMB'000	Contributed surplus reserve RMB'000	Share-based payment reserve RMB'000	Property revaluation reserve RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000	Foreign exchange reserve RMB'000	Other/ capital reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2014	1,507,182	16,116	13,505	34,499	(293,095)	6,471	(87)	7,351	536,971	1,828,913
Recognition of equity-settled share-based payment expenses	–	–	907	–	–	–	–	–	–	907
Reallocation of lapsed options from share-based payment reserve to retained profits	–	–	(2,260)	–	–	–	–	–	2,260	–
Exchange differences arising on foreign operations	–	–	–	–	–	–	(325)	–	–	(325)
Gain on disposal of a subsidiary, net of tax	–	–	–	–	–	–	–	743	–	743
Transfer among reserves	–	–	–	–	–	–	–	(7,351)	7,351	–
Loss for the year	–	–	–	–	–	–	–	–	(141,252)	(141,252)
As at 31 December 2014 and at 1 January 2015	**1,507,182**	**16,116**	**12,152**	**34,499**	**(293,095)**	**6,471**	**(412)**	**743**	**405,330**	**1,688,986**
Recognition of equity-settled share-based payment expenses	**–**	**–**	**6,546**	**–**	**–**	**–**	**–**	**–**	**–**	**6,546**
Reallocation of lapsed options from share-based payment reserve to retained profits	**–**	**–**	**(8,122)**	**–**	**–**	**–**	**–**	**–**	**8,122**	**–**
Exchange differences arising on foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**(891)**	**–**	**–**	**(891)**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(211,769)**	**(211,769)**
At 31 December 2015	**1,507,182**	**16,116**	**10,576**	**34,499**	**(293,095)**	**6,471**	**(1,303)**	**743**	**201,683**	**1,482,872**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

37. RESERVES (continued)

(a) **The following describes the nature and purpose of each reserve within owners' equity:**

Share premium	The amount relates to subscription for share capital in excess of nominal value. The application of the share premium account is governed by clause 150 of the Company's bye-laws and the Companies Act 1981 of Bermuda.
Contributed surplus reserve	The amount arose from the capital reduction, cancellation of share premium and part of which has been set-off against the accumulated losses of the Company as at 31 December 2004 pursuant to a capital re-organisation. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its owners out of the contributed surplus reserve under certain circumstances.
Share-based payment reserve	The reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees and non-employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 4(o).
Property revaluation reserve	Gains/losses arising on revaluing the identifiable assets and liabilities of existing subsidiaries when the Group further acquired the equity interest in the subsidiaries from non-controlling shareholders prior to 1 January 2007.
Merger reserve	The amount represents the difference between the fair value of combined capital of the Company and the carrying value of the assets and liabilities of the subsidiaries transferred to the Group pursuant to the acquisition of 100% interests in Long World Trading Limited.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

37. RESERVES (continued)

(a) **The following describes the nature and purpose of each reserve within owners' equity: (continued)**

Statutory reserves	In accordance with relevant rules and regulations concerning foreign investment enterprise established in the PRC and the articles of association, PRC subsidiaries of the Company were required to make appropriations from net profit to the reserve fund, staff and workers' bonus and welfare fund and enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions are made to investors. The percentage of profits to be appropriated to the above three funds are solely determined by the board of directors, except that being a wholly foreign-owned enterprise, transfer of 10% of the net profit for each year to the statutory reserves is mandatory until the accumulated total of the fund reaches 50% of its registered capital. During the current and prior years, the Group has not made any appropriations to the staff and workers' bonus and welfare fund and enterprise expansion fund.
Foreign exchange reserve	The amount represents gains/losses arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 4(m).
Capital reserve	The amount represents the portion of contribution from the non-controlling shareholders of a subsidiary attributable to owners of the Company.

(b) Distributable reserves

As at 31 December 2015, there were no distributable reserves available for distribution to owners of the Company (2014: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

(a) 2005 Scheme

Pursuant to a resolution passed on 4 August 2005, a share option scheme was adopted (the "**2005 Scheme**").

The Company operates the 2005 Scheme for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2005 Scheme include the Directors and other employees of the Group. The 2005 Scheme became effective on 5 August 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the 2005 Scheme, the Directors are authorised, at their absolute discretion, to invite any employee (including the executive and non-executive Directors), executive or officer of any member of the Group or of any entity in which the Group holds equity interest and any supplier, consultant, adviser or customer of the Group or of any entity in which the Group holds equity interest who is eligible to participate in the 2005 Scheme, to take up options to subscribe for shares in the Company. Each option gives the holder the right to subscribe or one ordinary share in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of adoption of the 2005 Scheme.

The Company may seek approval of the shareholders in general meeting for refreshing the 10% limit under the 2005 Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10%. of the total number of shares in issue as at the date of approval of the limit. Options previously granted under the 2005 Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the other scheme(s) or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

Notwithstanding aforesaid in this paragraph, the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

The total number of Company's shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1%. of the total number of shares in issue at the offer date (the "**Individual Limit**"). Any further grant of options in excess of the Individual Limit must be subject to the shareholders' approval in general meeting with such participant and his, her or its associates abstaining from voting.

The exercise price in respect of any particular option shall be such price as determined by the board of Directors (the "**Board**") in its absolute discretion at the time of the making of the offer but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the offer date; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the offer date; and (iii) the nominal value of the shares in the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(a) **2005 Scheme (continued)**

The offer of a grant of share options must be accepted not later than 21 days after the date of the offer, upon payment of a consideration of HK$1.00 by the grantee. The exercise period of the share options granted is determined by the Board, save that such period shall not be more than a period of ten years from the date upon which the share options are granted or deemed to be granted and accepted.

(b) 2015 Scheme

The 2005 Scheme expired on 3 August 2015. Therefore, the Company has adopted a new share option scheme on 9 June 2015 (the "**2015 Scheme**").

The Company operates the 2015 Scheme for the purposes of continuing to provide incentives or rewards to eligible participants for contribution they have made or may make to the Group and/or any entity/entities in which the Group holds any entity interest (the "**Invested Entity**"). The Board may at its discretion, grant share options to any of the eligible participants. Eligible participants of the 2015 Scheme include (i) any employee or proposed employee (whether full time or part time), and including executive directors; (ii) any directors (including executive, non-executive and independent non-executive directors) of any member of the Group or any Invested Entity, and for the purpose of the 2015 Scheme, share options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. The 2015 Scheme became effective on 9 June 2015 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares available for issue upon exercise of all options to be granted under the 2015 Scheme and any other share option schemes of the Company must not in aggregate exceed 10%. of the total number of shares of the Company in issue as at the date of adoption of the 2015 Scheme.

The Company may seek approval of the shareholders in general meeting for refreshing the 10% limit under the 2015 Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the 2015 Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit. Options previously granted under the 2015 Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the other scheme(s) or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

Notwithstanding aforesaid in this paragraph, the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 Scheme and any other share option schemes of the Company must not exceed, in aggregate, 30% of the total number of shares in issue from time to time.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) 2015 Scheme (continued)

The total number of Company's shares issued and to be issued upon exercise of the options granted and to be granted to each participant (including exercised, cancelled and outstanding options) under the 2015 Scheme and any other share option scheme of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue at the date of grant. Any further grant of options in excess of the aforesaid limit must be subject to the shareholders' approval in general meeting with such participant and his, her or its close associates abstaining from voting.

The exercise price in respect of any particular option shall be such price as determined by the Board in its absolute discretion but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the offer date of grant; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

The offer of a grant of share options must be accepted not later than 21 days after the date of the offer, upon payment of a consideration of HK$1.00 by the grantee. The exercise period of the share options granted is determined by the Board, save that such period shall not be more than a period of ten years from the date upon which the share options are granted or deemed to be granted and accepted.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

Details of the movement of the share options are as follows:

Date of grant	Exercise period	Exercise price per share	Number of options outstanding at 1 January 2014	During the year ended 31 December 2014: Options granted	During the year ended 31 December 2014: Options exercised	During the year ended 31 December 2014: Options lapsed	Number of options outstanding at 31 December 2014 and 1 January 2015	During the year ended 31 December 2015: Options granted (Note)	During the year ended 31 December 2015: Options exercised	During the year ended 31 December 2015: Options lapsed/ cancelled	Number of Options outstanding at 31 December 2015
12 September 2006	13 March 2007 to 31 July 2015	HK$1.2565	29,089,079	–	–	–	29,089,079	–	–	(29,089,079)	–
11 August 2011	11 August 2012 to 10 August 2021	HK$0.6714	9,036,033	–	–	(3,093,104)	5,942,929	–	–	–	**5,942,929**
11 August 2011	11 August 2015 to 10 August 2021	HK$0.6714	9,036,034	–	–	(3,093,104)	5,942,930	–	–	–	**5,942,930**
11 August 2011	11 August 2018 to 10 August 2021	HK$0.6714	9,036,036	–	–	(3,093,104)	5,942,932	–	–	–	**5,942,932**
			27,108,103	–	–	(9,279,312)	17,828,791	–	–	–	**17,828,791**
26 June 2015	26 June 2016 to 25 June 2025	HK$1.0820	–	–	–	–	–	10,439,000	–	(143,000)	**10,296,000**
26 June 2015	26 June 2017 to 25 June 2025	HK$1.0820	–	–	–	–	–	10,439,000	–	(143,000)	**10,296,000**
26 June 2015	26 June 2018 to 25 June 2025	HK$1.0820	–	–	–	–	–	10,439,000	–	(143,000)	**10,296,000**
26 June 2015	26 June 2019 to 25 June 2025	HK$1.0820	–	–	–	–	–	10,439,000	–	(143,000)	**10,296,000**
26 June 2015	26 June 2020 to 25 June 2025	HK$1.0820	–	–	–	–	–	10,439,000	–	(143,000)	**10,296,000**
26 June 2015	26 June 2021 to 25 June 2025	HK$1.0820	–	–	–	–	–	10,439,000	–	(143,000)	**10,296,000**
26 June 2015	26 June 2022 to 25 June 2025	HK$1.0820	–	–	–	–	–	10,366,000	–	(142,000)	**10,224,000**
			–	–	–	–	–	73,000,000	–	(1,000,000)	**72,000,000**
			56,197,182	–	–	(9,279,312)	46,917,870	73,000,000	–	(30,089,079)	**89,828,791**
Weighted average exercise price			HK$0.9743	–	–	HK$0.6714	HK$1.0342	HK$1.0820	–	HK$1.2507	**HK$1.0005**
Analysis by category:											
Directors			17,516,004	–	–	(5,213,097)	12,302,907	11,000,000	–	(7,089,810)	**16,213,097**
Other employees			33,468,081	–	–	(4,066,215)	29,401,866	62,000,000	–	(17,786,172)	**73,615,694**
Non-employees			5,213,097	–	–	–	5,213,097	–	–	(5,213,097)	–
			56,197,182	–	–	(9,279,312)	46,917,870	73,000,000	–	(30,089,079)	**89,828,791**

Note: The fair value of options granted was determined using the binominal (Cox, Ross, Rubinstein) option pricing valuation model by an independent valuer, APAC Asset Valuation and Consulting Limited. The significant inputs into the model were closing share price at the date of grant/valuation date, expected volatility based on past few years historical price volatility of the Company, vesting period of the options, risk-free rate, being the yield of Hong Kong government bonds, life of the options, expiration of the options and expected ordinary dividend.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

The estimated fair value of each option granted on 12 September 2006 and 11 August 2011 were HK$0.28 and HK$0.42 respectively. The following information is relevant in the determination of the fair value of options granted during the year under the 2005 Scheme:

Option pricing model	Binomial Model
Date of grant	12 September 2006
Closing share price at the date of grant	HK$1.30
Exercise price per share	HK$1.31
Annual risk-free rate	3.66%~3.92%
Expected volatility	35%
Life of the option	9 years
Expected dividend yield	0

Option pricing model	Binomial Model
Date of grant	11 August 2011
Closing share price at the date of grant	HK$0.67
Exercise price per share	HK$0.70
Annual risk-free rate	1.84%
Expected volatility	74%
Life of the option	10 years
Expected dividend yield	0

The share options granted on 12 September 2006 are subject to the following vesting schedules and the vesting condition is that the individual remains a director or an employee of the Group at the time of exercise the options:

Option Exercise Period	Number of share options exercisable
From 13/3/2007 to 31/7/2015	33.00%
From 13/3/2008 to 31/7/2015	33.00%
From 13/3/2009 to 31/7/2015	34.00%
	100%

The share options granted on and 11 August 2011 are subject to the following vesting schedules and the vesting condition is that the individual remains a director or an employee of the Group at the time of exercise the options:

Option Exercise Period	Number of share options exercisable
From 11/8/2012 to 10/8/2021	33%
From 11/8/2015 to 10/8/2021	33%
From 11/8/2018 to 10/8/2021	34%
	100%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

The estimated fair value of each option granted on 26 June 2015 was HK$0.58. The following information is relevant in the determination of the fair value of options granted during the year under the 2015 Scheme:

	2015
Option pricing model	**Binomial Model**
Date of grant	**26 June 2015**
Closing share price at the date of grant	**HK$1.02**
Exercise price per share	**HK$1.082**
Annual risk-free rate	**1.81%**
Expected volatility	**56%**
Life of the option	**10 years**
Expected dividend yield	**Nil**

The share options granted on 26 June 2015 are subject to the following vesting schedules and the vesting condition is that the individual remains a director or an employee of the Group at the time of exercise the options:

Option Exercise Period	Number of share options exercisable
From 26/6/2016 to 25/6/2025	14.30%
From 26/6/2017 to 25/6/2025	14.30%
From 26/6/2018 to 25/6/2025	14.30%
From 26/6/2019 to 25/6/2025	14.30%
From 26/6/2020 to 25/6/2025	14.30%
From 26/6/2021 to 25/6/2025	14.30%
From 26/6/2022 to 25/6/2025	14.20%
	100%

The fair value of share options granted is recognized as employee costs with a corresponding increase in share-based payment reserve within equity over the relevant vesting periods. The Group recognised RMB6,546,000 (2014: RMB907,000) (as disclosed in note 10), as equity-settled share-based payment expenses for the year ended 31 December 2015 in relation to share options granted by the Company.

The exercise price of options outstanding at the end of the year ranged between HK$0.6714 to HK$1.2565. During the year, no option was exercised, hence, no weighted average share price at the date of exercise of option is disclosed. The weighted average fair value of each option granted during the year was HK$0.51 (2014: Nil).

The number of exercisable options as at 31 December 2015 is 11,885,859 (2014: 5,942,929) (granted in 2011). The weighted average remaining contractual life of the outstanding options as at 31 December 2015 is 8.25 years (2014: 2.34 years).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of loss before income tax to net cash from operating activities

	2015	2014
	RMB'000	*RMB'000*
Loss before income tax	**(208,483)**	(168,326)
Adjustments for:		
Finance costs	**1,813**	1,871
Finance income	**(21,198)**	(9,035)
Equity-settled share-based payment expenses	**6,546**	907
Depreciation of property, plant and equipment	**13,086**	9,074
Amortisation of leasehold land	**3,407**	3,407
Exchange gain, net	**76,877**	(921)
Fair value changes in financial derivative asset/liabilities	**(2,632)**	(2,245)
Impairment loss on trade and other receivables	**210**	236
Gain from bargain purchase	**–**	(1,600)
Loss on disposal of subsidiaries, net of tax	**–**	15,830
Loss on disposal of property, plant and equipment	**–**	57
Fair value changes in investment properties	**(6,736)**	38,822
Write-down of properties under development/ properties held for sale	**20,024**	38,759
Operating loss before working capital changes	**(117,086)**	(73,164)
Increase in properties under Tianhe Project	**(9,077)**	(8,960)
Increase in properties under development	**(1,551,395)**	(2,086,833)
Decrease in properties held for sale	**263,105**	115,015
Increase in trade and other receivables	**(41,019)**	(78,306)
Increase/(Decrease) in trade and other payables	**143,131**	(11,399)
Increase in properties pre-sale deposits	**2,249,035**	1,323,958
Cash generated from/(used in) operations	**936,694**	(819,689)
Income tax paid	**(83,641)**	(19,385)
Other borrowing costs paid	**(38,135)**	(7,643)
Interest paid	**(656,788)**	(267,299)
Net cash from/(used in) operating activities	**158,130**	(1,114,016)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

40. EMPLOYEE RETIREMENT BENEFITS

Defined contribution pension plans

As stipulated by the labour regulations of the PRC, the Group participates in the defined contribution pension plans organised by the municipal and provincial governments for the benefits of its employees in the PRC. The Group is required to make contributions to the plans at ranges of specified percentages of the eligible employees' salaries.

The Group also participates in the Mandatory Provident Fund Scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and have not previously participated in the defined contribution retirement plans as mentioned above. The MPF Scheme is a defined contribution pension scheme administered by independent trustees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the MPF Scheme at the rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (approximately RMB25,000). The Group's contributions vest fully in the employees when contributed into the MPF Scheme.

Under all the plans, the Group has no other obligation for the payment of its employees' retirement and other postretirement benefits other than contributions described above.

41. OPERATING LEASE COMMITMENTS

Lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarters which fall due as follows:

	2015	2014
	RMB'000	*RMB'000*
Within one year	**388**	58

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

41. OPERATING LEASE COMMITMENTS (continued)

Lessor

At the end of the reporting period, the Group had commitments for future minimum rental receivable under non-cancellable operating leases in respect of commercial properties leased out which fall due as follows:

	2015	2014
	RMB'000	*RMB'000*
Within one year	**13,060**	18,069
Later than one year but within five years	**36,838**	45,811
Later than five years	**20,714**	28,364
	70,612	92,244

42. COMMITMENTS

	2015	2014
	RMB'000	*RMB'000*
Expenditure contracted but not provided for in respect of		
– Property construction and development costs	**1,970,841**	2,467,864
Expenditure authorised but not contracted for in respect of		
– Property construction and development costs	**–**	1,631,094
– Acquisition of land use rights	**–**	931,648
	–	2,562,742

43. CONTINGENT LIABILITIES

On 28 July 2015, a legal action was raised against the Yucheng, the project company of Zhoutouzui Project, by a Guangzhou Port Group Carrier Services Co., Limited (廣州港集團客運服務有限公司), a wholly-owned subsidiary of Port Authority, to claim for compensation in the amount of RMB20,000,000 for the demolition and relocation of occupants of the site on which the properties are being developed. The claim was made pursuant to an agreement entered into with Port Authority and Yucheng on 18 September 2001 and as supplemented by an agreement dated 18 December 2003 entered into with Port Authority and Yucheng. The management considers that all demolition and relocation works have been completed and related costs fully settled by Yucheng. The claim is currently being dealt with out of court and is in the course of negotiations with the claimant and the project company. With the belief that the project company has legal grounds to contest against the claim, the directors have not made any provision in the accounts of the Group to provide for the compensation claimed by the claimant.

Other than the above-mentioned, the Group had no other material contingent liabilities as at 31 December 2015 (2014: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

44. PLEDGE OF ASSETS

At the end of the reporting period, the carrying amounts of the Group's assets included in the following categories in the consolidated statement of financial position were pledged to secure credit facilities granted to the Group as disclosed in note 33:

	2015	2014
	RMB'000	*RMB'000*
Leasehold land and building	**212,638**	219,293
Investment properties	**570,058**	556,533
Properties under development	**2,838,422**	2,231,110
Properties held for sale	–	125,526
Short-term investments	**460,000**	200,000
Pledged deposits	**652,010**	297,200
	4,733,128	3,629,662

At the end of the reporting period, shares in certain subsidiaries of the Company were also charged to secure the trust loan and Secured Bonds and the loan facilities were secured by corporate guarantees provided by the Company, a company controlled by Mr. YU Pan and personal guarantee given by Mr. YU Pan and/or his spouse, which are disclosed in notes 33(a) to 33(e).

45. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material transactions with related parties:

(a) Material transactions with related parties

Related party relationship	Type of transaction	2015 *RMB'000*	2014 *RMB'000*
		Transaction amount	
Companies beneficially owned by Mr. YU Pan and his spouse	(a) Rental income received from office leasing	**111**	111
	(b) Interest expenses paid on short-term loan	–	(675)

(b) Personal guarantee by the Chairman

As at 31 December 2015, Mr. YU Pan and his spouse have provided personal guarantee to a bank in respect of banking facilities extended to the sino-foreign co-operative company, Yucheng, as set out in note 33(a).

As at 31 December 2015, Mr. YU Pan and a company controlled by him have provided personal guarantee and corporate guarantee to a financial institution in respect of the trust loan facility extended to a Company's subsidiary, which are disclosed in notes 33(c) and 33(d).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

45. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel

The remuneration of members of key management, including Directors' emoluments as disclosed in note 11, incurred during the year is as follows:

	2015	2014
	RMB'000	*RMB'000*
Short-term benefits	**13,744**	10,834
Other long-term benefits	**429**	272
Equity-settled share-based payment expenses	**3,490**	655
	17,663	11,761

Members of key management are those persons who have authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and executive officers.

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

Financial assets of the Group mainly include derivative financial asset, short-term investments, cash and cash equivalents, restricted and pledged deposits, consideration receivable, trade and other receivables and loan to non-controlling shareholders of a subsidiary. Financial liabilities of the Group include trade and other payables, bank and other borrowings, derivative financial liabilities. The Group does not hold any financial instruments for trading purposes at the end of the reporting period.

The main financial risks faced by the Group are foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders.

The Group and the Company have transactional currency exposures. Such exposures arise from financing and operating activities of the group entities conducted in currencies other than the functional currency.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(a) Foreign currency risk

The carrying amounts of the Group's monetary assets/(liabilities) which are denominated in currencies other than the functional currencies of the respective group entities at the end of the reporting period are as follows:

	2015 *RMB'000*	2014 *RMB'000*
Derivative financial asset		
– HK$	**37**	–
Cash and cash equivalents		
– US$	**1,949**	34,857
– HK$	**272,034**	19,273
Bank and other borrowings		
– US$	**(458,448)**	(189,689)
– HK$	**(1,268,734)**	(746,027)
Derivative financial liabilities		
– HK$	**(12,573)**	(32)

The following table demonstrates the effect of sensitivity to reasonably possible changes in US$ and HK$ exchange rates, with all other variables held constant, on the Group's loss after income tax in the next accounting period:

	2015		2014	
	Change in exchange rate %	**Increase (decrease) in loss after income tax** *RMB'000*	Change in exchange rate %	Increase (decrease) in loss after income tax *RMB'000*
If United States dollar weakens against Renminbi	4%	**18,260**	4%	6,193
If United States dollar strengthens against Renminbi	4%	**(18,260)**	4%	(6,193)
If Hong Kong dollar weakens against Renminbi	4%	**40,369**	4%	29,071
If Hong Kong dollar strengthens against Renminbi	4%	**(40,369)**	4%	(29,071)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(b) Interest rate risk

The following table details the interest rate profile of the Group's financial assets and liabilities as at the end of the reporting period based upon which the Company's management evaluates the interest rate risk:

	2015		2014	
	Effective interest rate	**Amount**	Effective interest rate	Amount
	(% per annum)	***RMB'000***	*(% per annum)*	*RMB'000*
Financial assets				
Fixed rate receivables				
– Short-term investments	**3.50 to 3.60%**	**460,000**	2.10% to 5.00%	244,000
– Restricted and pledged deposits	**3.28 to 2.50%**	**652,010**	3.08%	297,200
Floating rate receivables				
– Restricted and pledged deposits	**0.35%**	**270,719**	0.35%	37,644
– Loan to a non-controlling shareholder of a subsidiary	**4.79%**	**20,400**	–	–
– Other cash at bank	**0.01% to 0.35%**	**381,058**	0.01% to 0.35%	198,212
Financial liabilities				
Fixed rate borrowings				
– Other borrowings	**10.30% to 18.14%**	**1,329,749**	12.05% to 20.00%	1,073,099
Floating rate borrowings				
– Bank borrowings	**2.75% to 5.23%**	**1,430,074**	2.75% to 7.38%	1,201,728

The Group's exposure to interest rate risk for changes in interest rates primarily relates to the Group's restricted and pledged deposits, cash at bank included in cash and cash equivalents and floating rate bank and other borrowings. The Group does not use derivative financial instruments to hedge its cash flow interest rate risk of the Group's borrowings.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(b) Interest rate risk (continued)

The following table demonstrates the effect of sensitivity to reasonably possible changes in interest rates, with all other variables held constant, on the Group's loss after income tax in the next accounting period:

	2015		2014	
	Increase/ (decrease) in basis points	**(Decrease)/ increase in loss after income tax *RMB'000***	Increase/ (decrease) in basis points	(Decrease)/ increase in loss after income tax *RMB'000*
Floating rate financial assets				
Increase in floating rate	**100**	**6,722**	100	2,359
Decrease in floating rate	**(100)**	**(6,722)**	(100)	(2,359)
Floating rate financial liabilities				
Increase in floating rate	**500**	**(71,504)**	500	(3,323)
Decrease in floating rate	**(500)**	**71,504**	(500)	3,323

(c) Credit risk

The Group's exposure to credit risk arises from the consideration receivable and trade and other receivables. Management has performed in-depth due diligence reviews of the financial background and creditability of the purchaser of the Company's stake interests in Huan Cheng.

Management has a formal credit policy in place and the exposure to credit risk is monitored through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount. At the end of the reporting period, there is no significant concentration of credit risk in trade and other receivables.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and restricted and pledged deposits, arises from possible default of the counterparty. At the end of the reporting period, the Group has placed these deposits with banks and financial institutions of high credit.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

46. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

(d) Liquidity risk

The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, is as follows:

	Total undiscounted cashflow							
	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2015								
Trade and other payables	**4,212**	**116,545**	**1,079,976**	**–**	**–**	**–**	**1,200,733**	**1,200,733**
Bank and other borrowings	**117,843**	**1,215,007** *(Note)*	**775,016** *(Note)*	**676,278**	**3,686**	**777,814**	**3,565,644**	**2,759,822**
Guarantee for property mortgage	**1,178,900**	**–**	**–**	**–**	**–**	**–**	**1,178,900**	**–**
	1,300,955	**1,331,552**	**1,854,992**	**676,278**	**3,686**	**777,814**	**5,945,277**	**3,960,555**
2014								
Trade and other payables	4,053	27,152	197,569	–	–	–	228,774	228,774
Bank and other borrowings	113,792	328,518	1,039,578	905,256	–	205,114	2,592,258	2,274,827
Guarantee for property mortgage	140,111	–	–	–	–	–	140,111	–
	257,956	355,670	1,237,147	905,256	–	205,114	2,961,143	2,503,601

Note: As at 31 December 2015, the bank borrowings of the Group of approximately RMB891,591,000, were secured by standby letters of credit issued by two banks that were secured by the Group's bank deposits of RMB452,000,000 and short-term investments of RMB460,000,000 respectively maturing at the same time of the bank borrowing.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

47. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE

The following table shows the carrying amount and fair value of financial assets and liabilities of the Group at the end of the reporting period:

	2015		2014	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivable				
– Trade and other receivables	**479,100**	***(Note)***	467,037	*(Note)*
– Consideration receivable	**105,000**	***(Note)***	105,000	*(Note)*
– Short-term investments	**460,000**	***(Note)***	244,000	*(Note)*
– Loan to a non-controlling shareholder of a subsidiary	**20,400**	***(Note)***	–	–
– Restricted and pledged deposits	**922,729**	***(Note)***	334,844	*(Note)*
– Cash and cash equivalents	**383,255**	***(Note)***	201,105	*(Note)*
Fair value through profit or loss				
– Derivative financial asset	**37**	**37**	–	–
Financial liabilities				
Financial liabilities at amortised costs				
– Trade and other payables	**1,146,528**	***(Note)***	228,774	*(Note)*
– Bank and other borrowings:				
the Secured Loan	**434,824**	**454,758**	–	–
the Secured Bonds	**31,739**	**33,009**	244,642	252,125
the Unseured Bonds	**168,093**	**170,934**	–	–
others	**2,125,166**	***(Note)***	2,030,184	*(Note)*
Fair value through profit or loss				
– Derivative financial liabilities	**12,573**	**12,573**	32	32

Note: The Directors consider that the carrying amounts of these categories approximate their fair value on the grounds that either their maturities are short or their effective interest rates are approximate to the discount rates as at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

47. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

The fair values of financial liabilities are determined as follows:

– The fair value of financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using information from observable current market transactions.

– The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, option pricing models are used for option derivatives.

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the liability that are not based on observable market data (unobservable inputs).

	2015	2014
	Level 3	Level 3
	RMB'000	*RMB'000*
Financial asset at fair value through profit or loss		
– Derivative	**37**	–
Financial liabilities at fair value through profit or loss		
– Derivatives	**12,573**	32

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

	Financial asset	**Financial liabilities**	**2015**	2014
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	–	32	**32**	25,716
Issue of the Secured/Unsecured Bonds	(1,792)	16,093	**14,301**	–
Early repayment of Secured Loan	–	–	**–**	(23,715)
Total gains or losses:				
– Changes in fair value recognised in profit or loss during the year	1,854	(4,486)	**(2,632)**	(2,245)
– Exchange differences	(99)	934	**835**	276
At 31 December	(37)	12,573	**12,536**	32

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

47. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

During the year ended 31 December 2015, there were no transfers between instruments in Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Financial asset/ liabilities	Fair value	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Financial liabilities at fair value through profit or loss	Derivative financial liabilities – Conversion option	Level 3	Binomial Option Pricing Model	Underlying share price	Higher share price, higher conversion option value
				Volatility	Higher volatility, higher conversion option value
Financial liabilities at fair value through profit or loss	Derivative financial liabilities – Extension option	Level 3	Binomial Option Pricing Model	Effective interest rate (discount rate)	Higher effective interest rate, lower extenson option value
Financial liabilities at fair value through profit or loss	Derivative financial liabilities – Holder Redemption Rights	Level 3	The hull-white trinomial tree	Discount Rate	Higher discount rate, higher the holder redemption rights
				Short-term volatility parameter	Higher the short-term volatility parameter, higher the holder redemption rights
Financial assets at fair value through profit or loss	Derivative financial assets – Company Redemption Rights	Level 3	The hull-white trinomial tree	Discount Rate	Higher the discount rate, lower the company redemption rights
				Short-term volatility parameter	Higher the short-term volatility parameter, higher the company redemption rights

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER 2015

	2015 *RMB'000*	2014 *RMB'000*
Non-current assets		
Interests in subsidiaries	**3,277,323**	3,323,108
Derivative financial asset	**37**	–
	3,277,360	3,323,108
Current assets		
Amounts due from subsidiaries	**3,478**	2,298
Prepayments and other receivables	**13,999**	8,695
Cash and cash equivalents	**266,096**	18,523
	283,573	29,516
Current liabilities		
Accruals and other payables	**5,253**	14,716
Amounts due to subsidiaries	**1,287,077**	1,409,513
Other borrowings – current portion	**340,239**	422,642
Derivative financial liabilities – current portion	**–**	32
	1,632,569	1,846,903
Net current liabilities	**(1,348,996)**	(1,817,387)
Total assets less current liabilities	**1,928,364**	1,505,721
Non-current liabilities		
Other borrowings – non-current portion	**746,656**	150,457
Derivative financial liabilities – non-current portion	**12,573**	–
	759,229	150,457
Net assets	**1,169,135**	1,355,264
Capital and reserves		
Share capital	**21,068**	21,068
Reserves	**1,148,067**	1,334,196
Total equity	**1,169,135**	1,355,264

On behalf of the Board

YU Pan
Director

WEN Xiaobing
Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

49. RESERVES OF THE COMPANY

	Share premium *RMB'000*	Contributed surplus reserve *RMB'000*	Share-based payment reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2014	1,507,182	16,116	13,505	(81,528)	1,455,275
Recognition of equity-settled share-based payment expenses	–	–	907	–	907
Reallocation of lapsed options from share-based payment reserve to accumulated losses	–	–	(2,260)	2,260	–
Loss for the year	–	–	–	(121,986)	(121,986)
As at 31 December 2014 and at 1 January 2015	**1,507,182**	**16,116**	**12,152**	**(201,254)**	**1,334,196**
Recognition of equity-settled share-based payment expenses	**–**	**–**	**6,546**	**–**	**6,546**
Reallocation of lapsed options from share-based payment reserve to accumulated losses	**–**	**–**	**(8,122)**	**8,122**	**–**
Loss for the year	**–**	**–**	**–**	**(192,675)**	**(192,675)**
At 31 December 2015	**1,507,182**	**16,116**	**10,576**	**(385,807)**	**1,148,067**

50. PRINCIPAL SUBSIDIARIES

	Notes	**2015** *RMB'000*	2014 *RMB'000*
Interests in subsidiaries – non-current portion			
Unlisted investments, at cost	*(a), (c)*	**3,277,323**	3,323,108
Amounts due from subsidiaries – current portion			
Amounts due from subsidiaries	*(b)*	**21,464**	20,285
Less: Provision for impairment loss		**(17,986)**	(17,987)
		3,478	2,298
		3,280,801	3,325,406
Amounts due to subsidiaries	*(b)*	**(1,287,077)**	(1,409,513)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

50. PRINCIPAL SUBSIDIARIES (continued)

Notes:

(a) Details of the Company's principal subsidiaries as at 31 December 2015 are as follows:

Name of subsidiaries	Place of incorporation/ establishment/ operation	Particulars of issued ordinary shares/ paid-up capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activities
Fine Luck Group Limited	BVI	United States dollar ("**US$**")	100%	–	Investment holding
Fortunate Start Investments Limited	BVI	US$100	–	100%	Investment holding
Graceful China Limited	Hong Kong	HK$1	100%	–	Group treasury
廣州市創豪譽投資管理諮詢有限公司 (前稱廣州市創譽房地產有限公司) (Guangzhou Chuanghaoyu Investment Management Consulting Company Limited ("**Chuanghaoyu**") (Formerly named as Guangzhou Chuangyu Real Estate Company Limited)	PRC	US$6,000,000	–	100%	Provision of investments management services, property management, property sales and leasing
廣州市天譽物業管理有限公司 (Guangzhou Tianyu Property Management Company Limited)	PRC	RMB53,000,000	–	100%	Provision of property management services
廣州譽浚諮詢服務有限公司 (Guangzhou Yu Jun Consulting Service Company Limited)	PRC	HK$5,000,000	–	100%	Investment holding and provision of property development project management services in the PRC
Guangzhou Zhoutouzui Development Limited	Hong Kong	HK$100	–	100%	Investment holding
Long World Trading Limited	BVI	US$1	–	100%	Investment holding
南寧天譽巨成置業有限公司 (Nanning Tianyu Jucheng Realty Company Limited) ("**Nanning Jucheng**")	PRC	RMB50,000,000	–	80%	Property development in the PRC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

50. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(a) (continued)

Name of subsidiaries	Place of incorporation/ establishment/ operation	Particulars of issued ordinary shares/ paid-up capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activities
南寧天譽巨榮置業有限公司 (Nanning Tianyu Jurong Realty Company Limited)	PRC	RMB50,000,000	–	100%	Property development in the PRC
Skyfame Management Services Limited	Hong Kong	HK$1	100%	–	Provision of management services to group entities
Trenco Holdings Limited	Hong Kong	HK$10,000	–	100%	Investment holding
Yaubond Limited	BVI	US$18,813,500	–	100%	Property development
永州市天譽房地產開發有限公司 (Yongzhou Tianyu Real Estate Development Company Limited) (“**YZ Tianyu Real Estate**”)	PRC	RMB50,000,000	–	70%	Property development in the PRC
永州天譽旅遊發展有限公司 (Yongzhou Tianyu Tourism Development Company Limited)	PRC	RMB100,000,000	–	70%	Scenic zone management, property development and hotel operation in the PRC
Waymax Investments Limited	Hong Kong	HK$1	100%	–	Property investment
Winprofit Investments Limited	BVI	US$100	100%	–	Investment holding

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affects the results or assets of the Group.

Chuanghaoyu and GZ Yu Jun are wholly foreign-owned enterprises established with limited liability in the PRC.

(b) The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

50. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(c) Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarized financial information for each subsidiary that has non-controlling interests that are material to the Group.

Summarised statement of financial position

	Nanning Jucheng		YZ Tianyu Real Estate	
	As at 31 December		As at 31 December	
	2015	2014	**2015**	2014
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current				
Assets	**2,883,855**	1,724,835	**254,326**	440,819
Liabilities	**(2,884,822)**	(1,694,538)	**(337,870)**	(476,471)
	(967)	30,297	**(83,544)**	(35,652)
Non-current				
Assets	**1,307**	406	**755**	924
Liabilities	**–**	–	**–**	–
	1,307	406	**755**	924
Net assets/(liabilities)	**340**	30,703	**(82,789)**	(34,728)
Accumulated non-controlling interests	**68**	6,141	**(24,837)**	(10,418)

Summarised statement of profit or loss and other comprehensive income

	Nanning Jucheng		YZ Tianyu Real Estate	
	For the year ended 31 December		For the year ended 31 December	
	2015	2014	**2015**	2014
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Revenue	**–**	–	**269,427**	102,106
Loss before income tax	**(30,363)**	(19,781)	**(24,245)**	(47,833)
Income tax expense	**–**	–	**(23,816)**	(1,218)
Loss after tax and total comprehensive income	**(30,363)**	(19,781)	**(48,061)**	(49,051)
Loss allocated to non-controlling interests	**(6,073)**	(989)	**(14,418)**	(14,715)
Dividends paid to non-controlling interests	**–**	–	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

50. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(c) Summarised financial information on subsidiaries with material non-controlling interests (continued)

Summarised statement of cash flows

	Nanning Jucheng For the year ended 31 December		YZ Tianyu Real Estate For the year ended 31 December	
	2015	2014	**2015**	2014
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash flows from operating activities				
Cash generated from/(used in) operations	**391,104**	(254,195)	**30,735**	3,309
Income tax paid	**(41,052)**	(10,263)	**(3,916)**	(8,582)
Other borrowing costs paid	**–**	–	**(610)**	(811)
Interest paid	**(52,215)**	(43,489)	**(5,749)**	(9,575)
Net cash from/(used in) operating activities	**297,837**	(307,947)	**20,460**	(15,659)
Cash flows from investing activities				
Interest received	**650**	723	**155**	261
Purchase of property, plant and equipment	**(1,226)**	(494)	**–**	(31)
Acquisitions of short-term investments	**–**	(7,500)	**(35,000)**	(29,000)
Disposal of short term investments	**7,500**	–	**64,000**	–
Increase in restricted and pledged deposits	**(3,798)**	(33,042)	**–**	–
Net cash from/(used in) investing activities	**3,126**	(40,313)	**29,155**	(28,770)
Cash flows from financing activities				
New bank and other borrowings	**–**	–	**–**	30,000
Repayment of bank and other borrowings	**–**	–	**(145,000)**	(10,000)
Advance from/(repayment to) intermediate/immediate holding company or fellow subsidiaries	**(185,536)**	354,476	**70,698**	(9,680)
Loan to shareholders	**(102,000)**	–	**–**	–
Net cash (used in)/from financing activities	**(287,536)**	354,476	**(74,302)**	10,320
Net increase/(decrease) in cash and cash equivalents	**13,427**	6,216	**(24,687)**	(34,109)
Cash and cash equivalents at beginning of year	**45,058**	38,842	**43,375**	77,484
Cash and cash equivalents at the end of year	**58,485**	45,058	**18,688**	43,375

The information above is the amount before inter-company eliminations.

51. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 18 March 2016.

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