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SHIMAO 世茂房地產

SHIMAO PROPERTY HOLDINGS LIMITED

世茂房地產控股有限公司

（於開曼群島註冊成立之有限公司）

（股份代號：813）

海外監管公告

本海外監管公告乃根據香港聯合交易所有限公司（「聯交所」）證券上市規則
（「上市規則」）第13.10B條之規定刊發。

茲提述世茂房地產控股有限公司（「本公司」）日期為2018年6月21日及2018年6月22日的公告（「該等公告」），內容有關發行額外票據。除文義另有所指外，本公告所用詞彙與該等公告所界定者具有相同涵義。

請參閱隨附日期為2018年6月21日關於額外票據之發售備忘錄（「發售備忘錄」），該發售備忘錄已於2018年7月4日於新加坡交易所之網站發佈。

發售備忘錄在聯交所之網站公佈只是為了便於向香港之投資者進行同等的資訊傳達，並遵守上市規則第13.10B條之規定，此外並無任何其他目的。

發售備忘錄並不構成向任何司法權區之公眾提呈出售任何證券之招股章程、通告、通函、宣傳冊或廣告，亦並非向公眾發出邀請以就認購或購買任何證券作出要約，此外亦非供傳閱以邀請公眾發出認購或購買任何證券之要約。

發售備忘錄不得被視為對認購或購買本公司任何證券之勸誘，且並無意進行有關勸誘。不應根據發售備忘錄中所載資料作出任何投資決策。

承董事會命
世茂房地產控股有限公司
公司秘書
林綺薇

香港，2018年7月4日

於本公告日期，董事會包括三位執行董事許榮茂先生（主席）、許世壇先生（副主席）及湯沸女士；一位非執行董事劉賽飛先生；以及三位獨立非執行董事簡麗娟女士、呂紅兵先生及林清錦先生。

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE NON-U.S. PERSONS OUTSIDE THE U.S.

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

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 U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. 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, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT AND IN COMPLIANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION.

The attached document is not a prospectus for the purposes of the European Union's Directive 2003/71/EC (and any amendments thereto) as implemented in member states of the European Economic Area (the "EU Prospectus Directive"). 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.

The communication of the attached document and any other document or materials relating to the issue of the securities described therein is not being made, and such documents and/or materials have not been approved, by an authorized 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 securities described in the attached document are only available to, and any investment or investment activity to which the attached document relates will be engaged in only with, relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on the attached document or any of its contents.

PRIIPs Regulation/Prohibition of Sales to EEA Retail Investors – The Further Notes (as defined in this offering memorandum) 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 European Economic Area ("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 (as amended, the "Insurance Mediation Directive"), 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 Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Confirmation and your representation: In order to be eligible to view this offering memorandum or make an investment decision with respect to the securities, investors must be non-U.S. persons (as defined under Regulation S under the Securities Act) outside the United States. By accepting the e-mail and accessing this offering memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are non-U.S. persons outside the United States and that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and (2) that you consent to delivery of such offering memorandum by electronic transmission.

You are reminded that this offering memorandum has been delivered to you on the basis that you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of this offering memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of the issuer in such jurisdiction. This offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of Goldman Sachs (Asia) L.L.C. and The Hongkong and Shanghai Banking Corporation Limited as initial purchasers (the "Initial Purchasers"), or any person who controls it or any director, officer, employee or agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers.

You are responsible for protecting against viruses and other destructive items. 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.

CNY1,200,000,000

SHIMAO  世茂房地產

SHIMAO PROPERTY HOLDINGS LIMITED

世茂房地產控股有限公司

*(incorporated in the Cayman Islands with limited liability)***5.75% Senior Notes due 2021****(to be consolidated and form a single series with the CNY950,000,000****5.75% Senior Notes Due 2021 issued on March 15, 2018)****Issue Price: 100% plus accrued and interest from (and including) March 15, 2018****(but excluding) July 3, 2018**

Shimao Property Holdings Limited (the “Company” or the “Issuer”) is offering 5.75% Notes due 2021 in the aggregate principal amount of CNY1,200,000,000 (the “Further Notes”). The Further Notes will be issued under the indenture (the “Indenture”) governing the Company’s outstanding CNY950,000,000 aggregate principal amount of 5.75% Senior Notes due 2021 (the “Original Notes”). The Further Notes constitute Additional Notes under the Indenture and are identical in all respects to the Original Notes, except for the issue date, issue price and certain temporary securities law transfer restrictions. The Further Notes will be represented by a temporary global note issued under temporary ISIN and Common Code numbers to be used during the 40-day distribution compliance period after the issue date of the Further Notes, but thereafter may be replaced by a permanent global note with the same ISIN and Common Code numbers as the Original Notes. The Original Notes and the Further Notes are referred to collectively as the “Notes.” Upon completion of this offering, the aggregate principal amount of outstanding Further Notes and Original Notes will be CNY2,150,000,000.

The Further Notes will bear interest from at 5.75% per annum payable semi-annually in arrears on March 15 and September 15 of each year, beginning September 15, 2018. The Notes will mature on March 15, 2021.

The Notes are senior obligations of Shimao Property Holdings Limited (the “Company”) guaranteed (the “Subsidiary Guarantees”) by our existing subsidiaries (the “Subsidiary Guarantors”) other than (1) those organized under the laws of the PRC and (2) certain other subsidiaries specified in “Description of the Notes.”

We may at our option redeem the Notes, in whole or in part, at any time and from time to time on or after March 15, 2020, at the redemption price set forth in this offering memorandum plus accrued and unpaid interest, if any, to (but not including) the redemption date. At any time and from time to time prior to March 15, 2020, we may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 105.75% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date. In addition, we may at our option redeem the Notes, in whole but not in part, at any time prior to March 15, 2020, at a redemption price equal to 100% of the principal amount of the Notes plus a premium as set forth in this offering memorandum and accrued and unpaid interest if any, to (but not including) the redemption date. Upon the occurrence of a Change of Control Triggering Event (as defined in the indenture governing the Notes (the “Indenture”)), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

The Notes will be (1) at least *pari passu* in right of payment against the Company with respect to the 2015 Notes, the 2017 Notes, the January 2018 Notes (all as defined in this offering memorandum) and all other unsecured, unsubordinated indebtedness of the Company (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law); (2) senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes; (3) effectively subordinated to the secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any), to the extent of the value of the assets serving as security therefor (other than the collateral securing the Notes); and (4) effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries. In addition, applicable law may limit the enforceability of the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) and the pledge of any collateral. See “Risk Factors – Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral.”

For a more detailed description of the Notes, see “Description of the Notes.”

Investing in the Notes involves risks. See “Risk Factors” beginning on page 17.

The Original Notes are listed on the Singapore Exchange Securities Trading Limited (the “SGX-ST”). Approval in-principle has been received from the SGX-ST for the listing and quotation of the Further Notes 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 the listing and quotation of the Further Notes on, the SGX-ST are not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) or any other subsidiary or associated company of the Company, the Further Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (if any).

The Further Notes, and the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been and will not be registered under the United States Securities Act of 1933, as amended, (the “U.S. Securities Act”), and may not be offered or sold within the United States. The Further Notes are being offered and sold by the Initial Purchasers only outside the United States to non-U.S. persons in compliance with Regulation S under the U.S. Securities Act (“Regulation S”). For a description of certain restrictions on resale or transfer, see “Transfer Restrictions.”

With reference to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知發改外資[2015]2044號) (the “NDRC Notice”) promulgated by National Development and Reform Commission (the “NDRC”) of the PRC on September 14, 2015 which came into effect on the same day, we have registered the issuance of the Further Notes with the NDRC and obtained a certificate from the NDRC on April 16, 2018 evidencing such registration. Pursuant to the registration certificate, we will cause relevant information relating to the issue of the Notes to be reported to the NDRC within ten PRC working days after the issue date of the Notes.

It is expected that delivery of the Further Notes will be made on or about July 3, 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.

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Goldman Sachs (Asia) L.L.C.**HSBC**

The date of this offering memorandum is June 21, 2018

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
SUMMARY	1	RELATED PARTY TRANSACTIONS ..	182
RISK FACTORS	18	DESCRIPTION OF OTHER	
USE OF PROCEEDS	67	MATERIAL INDEBTEDNESS	185
EXCHANGE RATE INFORMATION ..	68	DESCRIPTION OF THE NOTES	197
CAPITALIZATION AND		TAXATION	287
INDEBTEDNESS	71	PLAN OF DISTRIBUTION	290
SELECTED CONSOLIDATED		TRANSFER RESTRICTIONS	294
FINANCIAL AND OTHER DATA ..	74	RATINGS	297
CORPORATE STRUCTURE	78	LEGAL MATTERS	297
BUSINESS	85	INDEPENDENT AUDITOR	297
REGULATION	131	GENERAL INFORMATION	298
MANAGEMENT	177	INDEX TO FINANCIAL	
PRINCIPAL SHAREHOLDERS	181	INFORMATION	F-1

This offering 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 offering 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 offering memorandum or that the information contained in this offering memorandum is correct as of any time after that date.

This offering memorandum is not a prospectus for the purposes of the European Union's Directive 2003/71/EC (and any amendments thereto) as implemented in member states of the European Economic Area (the "EU Prospectus Directive"). This offering memorandum has been prepared on the basis that all offers of the Further Notes 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 Further Notes.

The communication of this offering memorandum and any other document or materials relating to the issue of the securities described therein is not being made, and such documents and/or materials have not been approved, by an authorized 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 securities described in this offering memorandum are only available to, and any investment or investment activity to which this offering memorandum relates will be

engaged in only with, relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on the attached document or any of its contents.

PRIIPs Regulation/Prohibition of Sales to EEA Retail Investors – The Further Notes 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 European Economic Area (“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 (as amended, the “Insurance Mediation Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the EU Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Further Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Further Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

IN CONNECTION WITH THIS OFFERING, THE INITIAL PURCHASERS APPOINTED AND ACTING IN THE CAPACITY AS STABILIZING MANAGERS OR ANY PERSON ACTING FOR IT, MAY PURCHASE AND SELL THE FURTHER NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE FURTHER NOTES. AS A RESULT, THE PRICE OF THE FURTHER NOTES MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME. THESE ACTIVITIES WILL BE UNDERTAKEN SOLELY FOR THE ACCOUNT OF STABILIZING MANAGER, AND NOT FOR US OR ON OUR BEHALF.

We, having made all reasonable inquiries, confirm that: (i) this offering memorandum contains all information with respect to us, our subsidiaries and affiliates referred to in this offering memorandum and the Further Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees that is material in the context of the issue and offering of the Further Notes; (ii) the statements contained in this offering memorandum relating to us and our subsidiaries and our affiliates are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this offering memorandum with regard to us and our subsidiaries and affiliates are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to us, our subsidiaries and affiliates, the Further Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees, the omission of which would, in the context of the issue and offering of the Further Notes, make this offering memorandum, as a whole, misleading in any material respect; and (v) we have made all reasonable enquiries to ascertain such facts and to verify the accuracy of all such information and statements. We accept responsibility accordingly.

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

Notwithstanding anything to the contrary contained herein, a prospective investor (and each employee, representative, or other agent of a prospective investor) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described in this offering memorandum and all materials of any kind that are provided to the prospective investor relating to such tax treatment and tax structure. This authorization of tax disclosure is retroactively effective to the commencement of discussions with prospective investors regarding the transactions contemplated herein.

We have prepared this offering 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 Further Notes. By purchasing the Further Notes, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section entitled “Transfer Restrictions” below.

No representation or warranty, express or implied, is made or given by Goldman Sachs (Asia) L.L.C. and The Hongkong and Shanghai Banking Corporation Limited (the “Initial Purchasers”) or any of its affiliates or advisers as to the accuracy, completeness or sufficiency of the information set forth herein, and nothing contained in this offering memorandum is, or should be relied upon as, a promise, representation or warranty, whether as to the past or the future. The Initial Purchasers have not independently verified any of the information contained in this offering memorandum or can give any assurance that this information is accurate, truthful or complete. To the fullest extent permitted by law, the Initial Purchasers do not accept any responsibility for the contents of this offering memorandum or for any statement made or purported to be made by the Initial Purchasers or on their behalf in connection with the Company, the Subsidiary Guarantors or the issue and offering of the Further Notes. The Initial Purchasers accordingly disclaim all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this offering memorandum or any such statement.

Each person receiving this offering 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 Initial Purchasers or any person affiliated with the Initial Purchasers 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 Further Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (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 offering of the Further Notes) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us or the Initial Purchasers.

The Further Notes and the Subsidiary Guarantees have not been approved or disapproved by the United States Securities and Exchange Commission (the “SEC”), any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

We are not, and the Initial Purchasers are not, making an offer to sell the Further Notes, including the Subsidiary Guarantees, in any jurisdiction except where an offer or sale is permitted. The distribution of this offering memorandum and the offering of the securities, including the Further Notes and the Subsidiary Guarantees, may in certain jurisdictions be restricted by law. Persons into whose possession this offering memorandum comes are required by us and the Initial Purchasers to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the securities, including the Further Notes and the Subsidiary Guarantees, and distribution of this offering memorandum, see the sections entitled “Transfer Restrictions” and “Plan of Distribution” below.

This offering 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 offering memorandum. In making an investment decision, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. We are not making any representation to you regarding the legality of an investment in the Further Notes by you under any legal, investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own professional advisers for legal, business, tax and other advice regarding an investment in the Further Notes.

This offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (“MAS”) under the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”). Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Further Notes may not be circulated or distributed, nor may the Further Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, 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 Further Notes 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 Further Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) 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;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

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

Market data, industry forecast and the PRC and property industry statistics in this offering 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 the Initial Purchasers or our or its respective directors and advisers, and neither we, the Initial Purchasers nor our or its respective directors and advisers make 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. Due to possibly inconsistent collection methods and other problems, such statistics herein may be inaccurate. You should not unduly rely on such market data, industry forecast and the PRC and property industry statistics.

In this offering memorandum, all 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.”); all 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”); and all references to “CNY,” “RMB” or “Renminbi” are to the Renminbi, the official currency of the People’s Republic of China (“China” or the “PRC”).

We record and publish our financial statements in Renminbi. Unless otherwise stated in this offering memorandum, all translations from Renminbi amounts to U.S. dollar amounts 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 H.K. dollar amounts into U.S. dollar amounts 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 offering 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 or H.K. dollars, or vice versa, at any particular rate, or at all. For further information relating to the exchange rates, see “Exchange Rate Information.”

References to “PRC” and “China,” in the context of statistical information and description of laws and regulations in this offering memorandum, except where the context otherwise requires, do not include Hong Kong, Macau Special Administrative Region of the PRC (“Macau”), or Taiwan. “PRC government” or “State” means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governments) and instrumentalities thereof, or, where the context requires, any of them.

Our financial statements are prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRS”) which differ in certain respects from generally accepted accounting principles in the United States (“U.S. GAAP”) and certain other jurisdictions. Unless the context otherwise requires, references to “2015”, “2016” and “2017” in this offering memorandum are to our financial years ended December 31, 2015, 2016 and 2017, respectively.

References to “share” are to, unless the context indicates otherwise, an ordinary share, with a nominal value of HK\$0.10, in our share capital.

References to “Shanghai Shimao” are to Shanghai Shimao Co., Ltd., our subsidiary with shares listed on the Shanghai Stock Exchange. As of the date of this offering memorandum, we hold a 58.92% equity interest in Shanghai Shimao.

References to the “2014 Notes” are to our 8.125% Senior Notes due 2021. We have fully redeemed the 2014 Notes as of the date of this offering memorandum.

References to the “2015 Notes” are to our 8.375% Senior Notes due 2022. See “Description of the Other Material Indebtedness – 2015 Notes” for more details.

References to the “2017 Notes” are to our 4.75% Senior Notes due 2022. See “Description of the Other Material Indebtedness – 2017 Notes” for more details.

References to the “January 2018 Notes” are to our 5.20% Senior Notes due 2025. See “Description of the Other Material Indebtedness – January 2018 Notes” for more details.

In this offering memorandum, unless the context otherwise requires, all references to “Affiliate” are to person or entity directly or indirectly controlled by, or under the direct or indirect common control of, another person or entity; all references to “subsidiary” are used with the meaning ascribed to it in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”), as amended (the “Listing Rules”), which includes: (i) a “subsidiary undertaking” as defined in Schedule 1 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “Companies Ordinance”), (ii) any entity which is accounted for and consolidated in the audited consolidated accounts of another entity as a subsidiary pursuant to HKFRS or International Financial Reporting Standards, as applicable, and (iii) any entity which will, as a result of acquisition of its equity interest by another entity, be accounted for and consolidated in the next audited consolidated accounts of such other entity as a subsidiary pursuant to HKFRS or International Financial Reporting Standards, as applicable; all references to “associate” are used with the meaning ascribed thereto under the Listing Rules, which includes: (i) in relation to an individual, his spouse and children under the age of 18, certain trustees, his or his family holding companies, as well as companies over which he, his family, trustee interests and holding companies exercise at least 30% voting power, (ii) in relation to a company, its subsidiaries, its holding companies, subsidiaries of such holding companies, certain trustees, as well as companies over which such company and its subsidiaries, trustee interests, holding companies and subsidiaries of such holding companies together exercise at least 30% voting power and (iii) in the context of connected transactions, certain connected persons and enlarged family members of a director of our Company, chief executive or substantial shareholder of a listed issuer; and all references to “controlling shareholder” are used with the meaning ascribed thereto under the Listing Rules, including any person or group of persons who are entitled to exercise 30% or more of the voting power at our general meetings or are in a position to control the composition of a majority of our board of directors, and “controlling interest” will be construed accordingly.

In this offering 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 offering memorandum contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include statements relating to:

- our business and operating strategies;
- our capital expenditure and property development 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;
- the interpretation and implementation of the existing rules and regulations relating to land appreciation tax and its future changes in enactment, interpretation or enforcement;
- the prospective financial information regarding our businesses;
- availability and costs of bank loans and other forms of financing;
- our dividend policy;
- projects under development or held for future development;
- the regulatory environment of our industry in general;
- the performance and future developments of the property market in China or any region in China in which we may engage in property development;
- changes in political, economic, legal and social conditions in China, including the specific policies of the PRC central and local governments affecting the regions where we operate, which affect land supply, availability and cost of financing, and pre-sale, pricing and volume of our property development projects;
- significant delay in obtaining the various permits, proper legal titles or approvals for our properties under development or held for future development;
- timely repayments by our purchasers of mortgage loans guaranteed by us;
- changes in competitive conditions and our ability to compete under these conditions;
- the performance of the obligations and undertakings of the third-party contractors under various construction, building, interior decoration, material and equipment supply and installation contracts;

- changes in currency exchange rates; and
- other factors beyond our control.

In some cases, you can identify forward-looking statements by such terminology as “may,” “will,” “should,” “could,” “would,” “expect,” “intend,” “plan,” “anticipate,” “going forward,” “ought to,” “seek,” “project,” “forecast,” “believe,” “estimate,” “predict,” “potential” or “continue” or the negative of these terms or other comparable terminology. Such statements reflect the current views of our management with respect to future events, operations, results, liquidity and capital resources and are not guarantee of future performance and some of which may not materialize or may change. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that those expectations will prove to be correct, and you are cautioned not to place undue reliance on such statements. In addition, unanticipated events may adversely affect the actual results we achieve. Important factors that could cause actual results to differ materially from our expectations are disclosed under the section entitled “Risk Factors” in this offering memorandum. Except as required by law, we undertake no obligation to update or otherwise revise any forward-looking statements contained in this offering memorandum, whether as a result of new information, future events or otherwise after the date of this offering memorandum. All forward-looking statements contained in this offering memorandum are qualified by reference to the cautionary statements set forth in this section.

ENFORCEMENT OF CIVIL LIABILITIES

We are an exempted company incorporated in the Cayman Islands with limited liability, and each Subsidiary Guarantor and JV Subsidiary Guarantor (if any) is also incorporated or may be incorporated, as the case may be, outside the United States, such as the British Virgin Islands (the “BVI”) and Hong Kong. The Cayman Islands, BVI, Hong Kong and other jurisdictions have different bodies of securities laws from the United States and protections for investors may differ.

All of our assets and all of the assets of the initial Subsidiary Guarantors are, and all of the assets of any future Subsidiary Guarantors or JV Subsidiary Guarantors may be, located outside the United States. In addition, all of our directors and officers and the directors and officers of the initial Subsidiary Guarantors are, and the directors and officers of any future Subsidiary Guarantors or JV Subsidiary Guarantors may be, nationals or residents of countries other than the United States (principally of the PRC), and all or a substantial portion of such persons’ assets are or may be located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us, any of the initial Subsidiary Guarantors or future Subsidiary Guarantors or JV Subsidiary Guarantors or such directors and officers or to enforce against us or any of the initial Subsidiary Guarantors or future Subsidiary Guarantors or JV Subsidiary Guarantors or such directors and officers judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

We and each of the Subsidiary Guarantors and JV Subsidiary Guarantors (if any) expect to appoint Cogency Global Inc. as our and their respective agent to receive service of process with respect to any action brought against us or any such Subsidiary Guarantor or JV Subsidiary Guarantor in the United States federal courts located in the Borough of Manhattan, The City of New York under the federal securities laws of the United States or of any state of the United States or any action

brought against us or any such Subsidiary Guarantor or JV Subsidiary Guarantor in the courts of the State of New York in the Borough of Manhattan, The City of New York under the securities laws of the State of New York.

We have been advised by our Cayman Islands legal adviser, Harney Westwood & Riegels, that any final and conclusive monetary judgment for a definite sum obtained in the United States courts against us would be treated by the courts of the Cayman Islands as a cause of action in itself and sued upon as a debt at common law so that no retrial of the issues would be necessary provided that: (a) the court giving such judgment had jurisdiction in the matter and that we either submitted to such jurisdiction or were resident or had a fixed place of business within such jurisdiction and was duly served with process; (b) the judgment given was not in respect of penalties, taxes, fines or other amounts payable to any government entity; (c) the judgment was not procured by fraud; (d) recognition or enforcement of the judgment in the Cayman Islands would not be contrary to public policy; and (e) the proceedings pursuant to which judgment was obtained were not contrary to natural justice.

We have also been advised by Commerce & Finance Law Offices, PRC legal advisers to the Initial Purchasers, that there is uncertainty as to whether the courts of China would (i) enforce judgments of U.S. courts obtained against us, our directors or officers, any Subsidiary Guarantor, any JV Subsidiary Guarantor or their respective directors or officers predicated upon the civil liability provisions of the U.S. federal or state securities laws or (ii) entertain original actions brought in China against us, our directors or officers, any Subsidiary Guarantor, any JV Subsidiary Guarantor or their respective directors or officers predicated upon the U.S. federal or state securities laws.

GLOSSARY OF TECHNICAL TERMS

The following are definitions of certain terms appearing in this offering memorandum that are commonly used in connection with our business. The terms and their meanings may not correspond to standard industry meanings or usages of those terms.

<i>CAGR</i>	compound annual growth rate
<i>certificate of completion</i>	a construction project planning inspection and clearance certificate (建設工程規劃驗收合格證) issued by local urban zoning and planning bureaus or equivalent authorities or equivalent certificate issued by relevant authorities in China with respect to the completion of property projects subsequent to their on-site examination and inspection
<i>commodity properties</i>	residential properties, commercial properties and other buildings that are developed by property developers for the purposes of sale or lease after their completion
<i>construction land planning permit</i>	a construction land planning permit (建設用地規劃許可證) issued by local urban zoning and planning bureaus or equivalent authorities in China; a construction works planning permit refers to a construction works planning permit (建設工程規劃許可證) issued by local urban zoning and planning bureaus or equivalent authorities in China; a construction permit refers to a construction works commencement permit (建築工程施工許可證) issued by local construction committees or equivalent authorities in China
<i>GFA</i>	gross floor area
<i>land grant contract</i>	an agreement between a property developer and a PRC land authority, typically the local state owned land resources bureaus, in respect of the grant of the state-owned land use rights of a parcel of land to such property developer
<i>land grant confirmation letter</i>	a letter issued by the relevant PRC land and resources bureau confirming that a property developer has been selected as the winner of the tender, auction or listing-for-sale process for the grant of the state-owned land use rights of a parcel of land
<i>land use rights certificate</i>	a state-owned land use rights certificate (國有土地使用證) issued by a local real estate and land resources bureau with respect to the land use rights
<i>LAT</i>	land appreciation tax

<i>low-density</i>	the low-density property that we develop includes stand-alone houses, semi-detached houses and townhouses
<i>pre-sale</i>	sales of properties prior to the completion of their construction, after the satisfaction of certain conditions under PRC laws and regulations
<i>pre-sale permit</i>	a commodity property pre-sale permit (商品房預售許可證) issued by local housing and building administrative bureaus or equivalent authorities with respect to the pre-sale of relevant properties
<i>properties for sale</i>	our completed properties held for sale and properties under development for sale, collectively
<i>property ownership certificate</i>	a property ownership and land use rights certificate (房地產權證) issued by a local real estate and land resources bureau with respect to the land use rights and the ownership rights of the buildings on the relevant land
<i>sq.m.</i>	square meter(s)

SUMMARY

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

OVERVIEW

We are a large-scale developer and owner of high-quality real estate projects in China. We specialize in developing mid- to high-end residential, retail and office properties for sale and prime and well-located hotel, retail and office properties for long-term investment. We have a track record of successfully bringing to market real estate projects in Shanghai, Beijing, Hangzhou, Suzhou, Nanjing, Fuzhou and other fast-growing cities in China. We believe that this track record, together with the strong recognition of our “Shimao” brand name, positions us well as we continue to develop and market our real estate projects in cities throughout China. We aim to continue to grow as a leading property developer and investor with a strong presence in China’s key cities and economic regions as well as Hong Kong by continuing to enhance our “Shimao” brand name, create and develop innovative and market-leading properties, pursue property diversification and increase our proportion of investment properties and hotels to achieve a balanced revenue profile and expand our business operations and land bank in a disciplined manner.

As of December 31, 2017, we had a total of 165 projects (including projects we develop with our joint venture partners) at various stages of development in 47 cities located in the Yangtze River Delta Region (including Jiangsu and Shanghai District and Zhejiang District), Bohai Rim Region, Northeastern Region, Western and Southern Central Region, Southern China and Fujian Province and other regions of rapid economic growth. As of December 31, 2017, we had a land bank with an estimated total GFA attributable to us of approximately 47.9 million sq.m., comprising properties under development with an aggregate planned GFA attributable to us of approximately 20.23 million sq.m. and properties held for future development with an aggregate planned GFA attributable to us of approximately 27.67 million sq.m. As of December 31, 2017, we had completed properties unsold with an aggregate GFA attributable to us of approximately 1.0 million sq.m. As of December 31, 2017, our projects (including projects we develop with our joint venture partners) held for future development included an aggregate planned GFA attributable to us of approximately 1.4 million sq.m. for which we had not obtained land use rights certificates but had entered into land grant contracts or obtained land grant confirmation letters and were in the process of applying for the relevant land use rights. Our average land cost for our land bank reserve as of December 31, 2017 was approximately RMB5,108 per sq.m. We believe our relatively low cost of land will enable us to continue to achieve a high profit margin in the future.

In addition, we acquired certain parcels of land, including those for projects we develop with our joint venture partners, with an aggregate planned GFA of approximately 4.6 million sq.m. for the four months ended April 30, 2018, of which approximately 1.6 million sq.m. are attributable to us and for which we have not obtained land use rights certificates but have entered into land grant contracts or obtained land grant confirmation letters and are in the process of applying for the relevant land use rights. These parcels of land include development sites in Shenzhen, Fuzhou, Beijing, Nanjing, Jiaxing, Hong Kong and other cities.

Our property portfolio comprises high-quality residential, retail and office properties for sale as well as high-end hotels, retail and office properties held for long-term investment, which include, among others, DoubleTree by Ningbo Beilun, MiniMax Hotel Xiamen Central, Le Royal Méridien Shanghai and its retail podium, Shanghai Shimao International Plaza, Hyatt on the Bund Shanghai, the Yuluxe Sheshan, A Tribute Portfolio Hotel, Shanghai, Beijing Shimao Tower, Shaoxing Shimao Holiday Inn, Conrad Xiamen, InterContinental Shanghai Wonderland and Hilton Nanjing Riverside. For the year ended December 31, 2015, 2016 and 2017, we generated 94.6%, 94.8% and 94.8%, respectively, of our revenue from the sales of properties and the remaining 5.4%, 5.2% and 5.2%, respectively, from our hotel operations, leasing of investment properties, property management and other operations.

We believe our past success is partially due to our well-developed knowledge of the socio-economic policies and development trends in China. We have been able to identify high-growth markets such as Beijing and the Bohai Rim Region as well as Shanghai and the Yangtze River Delta Region and have entered these markets in a timely manner. We believe that this has, in turn, allowed us to obtain land at prime locations (or locations that we expect will become prime) at a reasonable cost. Going forward, we intend to continue to increase our land bank reserve in a prudent and strategic manner.

For the years ended December 31, 2015, 2016 and 2017, our revenue was RMB57,733.0 million, RMB59,286.2 million and RMB70,425.9 million (US\$10,824.3 million), respectively, and the profit for the year was RMB8,158.7 million, RMB7,510.4 million and RMB10,570.7 million (US\$1,624.7 million), respectively.

Our Strengths

We believe our primary competitive strengths are:

- market leadership and proven execution capabilities;
- sizable and geographically diversified low-cost land bank in high growth cities;
- balanced property portfolio with strong recurring income;
- expertise in integrated development projects;
- valuable and well-recognized brand name associated with high quality and innovative products;
- diversified funding channels with strong financing capabilities;
- strong relationships with international business and real estate industry partners; and
- experienced and stable management team.

Our Strategies

We aim to continue to grow as a leading property developer and investor with a strong presence in key cities and economic regions in China as well as Hong Kong. We have developed the following business strategies to pursue our growth objectives:

- continue to enhance our “Shimao” brand name;
- continue to pursue product diversification and refine our asset portfolio to achieve a balanced revenue profile;
- continue to expand our business operations and land bank in a disciplined manner;
- promote environmental protection, energy-saving and low carbon emission in planning and design work; and
- continue to adopt prudent financial policy and proactive approach to capital structure management.

Recent Developments

Redemption of the 2014 Notes

On January 22, 2018, we redeemed all outstanding principal amount of the 2014 Notes in US\$600,000,000 at a redemption price of 104.063% plus accrued and unpaid interest to the redemption date.

Issue of the January 2018 Notes

On January 30, 2018, we issued the January 2018 Notes in an aggregate principal amount of US\$500,000,000. See “Capitalization and Indebtedness” and “Description of Other Material Indebtedness – January 2018 Notes.”

March 2018 Loan Agreement

On March 19, 2018, Shimao Property Holdings (BVI) Limited, our wholly owned subsidiary entered into a loan agreement with a bank, pursuant to which the bank has agreed to lend to Shimao Property Holdings (BVI) Limited a term loan of a principal amount of US\$350,000,000. The loan matures on April 15, 2019. As of the date of this offering memorandum, we have fully drawn down the loan.

May 2018 Loan Facility

On May 25, 2018, Shimao Property Holdings (BVI) Limited, our wholly owned subsidiary entered into a facility letter with a bank loan matures on which the bank has agreed to make available to Shimao Property Holdings (BVI) Limited a term loan facility of a maximum HKD/USD principal amount, which is equivalent to RMB200,000,000 (the “Loan Facility”). The Loan Facility is available within six months from the date of Shimao Property Holdings (BVI) Limited’s acceptance of the

facility letter. The maturity date of the Loan Facility is 24 months from the earlier date of Shimaoproperty Holdings (BVI) Limited's acceptance of the facility letter or the expiry date of the relevant standby letter of credit. As of the date of this offering memorandum, we have drawn down an amount of US\$28,700,000 under the Loan Facility.

General Information

We were incorporated in the Cayman Islands on October 29, 2004, as an exempted company with limited liability. Our shares have been listed on the Hong Kong Stock Exchange since July 5, 2006. Our place of business in Hong Kong is at 38th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong. Our registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KYI-1111, Cayman Islands. Our website is www.shimaoproperty.com. Information contained on our website does not constitute part of this offering memorandum.

THE OFFERING

The following summary is provided solely for your convenience. This summary is not intended to be complete and it is subject to important limitations and exceptions. You should read the full text and more specific details contained elsewhere in this offering memorandum. For a more detailed description of the Further Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), see “Description of the Notes.” The information contained in “Description of the Notes” shall prevail to the extent of any inconsistency with the information set forth in this section. Terms used in this summary and not otherwise defined have the meanings given to them in the section entitled “Description of the Notes.”

Issuer	Shimao Property Holdings Limited.
Further Notes Offered	CNY1,200,000,000 aggregate principal amount of 5.75% Senior Notes due 2021.
Issue Price	100% of the principal amount of the Further Notes plus accrued interest from (and including) March 15, 2018 to (but excluding) July 3, 2018
Maturity Date	March 15, 2021.
Interest	The Notes bear interest at a rate of 5.75% per annum payable semi-annually in arrears on March 15 and September 15 of each year, commencing September 15, 2018.
Ranking of the Notes	<p>The Notes are:</p> <ul style="list-style-type: none">• general obligations of the Company;• senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;• at least <i>pari passu</i> in right of payment against the Company with respect to the 2015 Notes, the 2017 Notes, the January 2018 Notes and all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);• on the Original Issue Date and for so long as any 2015 Note remains outstanding, guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described below under the caption “Description of the Notes – The Subsidiary Guarantees and JV Subsidiary Guarantees” and in “Risk Factors – Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral”;

- effectively subordinated to the secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any), to the extent of the value of the assets serving as security therefor (other than the Collateral); and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

After the pledge of the Collateral (as defined below) by the Company and the Subsidiary Guarantor Pledgors (as defined below) and the entry into the supplement to the Intercreditor Agreement (as defined below) and subject to certain limitations described under “Risk Factors – Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral,” the Notes will, for so long as any Indebtedness secured by the Collateral (other than Indebtedness represented by the Notes and the Subsidiary Guarantees) remains outstanding:

- be entitled to a security interest in the Collateral pledged by the Company and the Subsidiary Guarantor Pledgors (subject to any permitted liens) shared on a *pari passu* basis among the holders of the 2015 Notes, the holders of the 2017 Notes, the holders of the January 2018 Notes, the holders of the Notes and any other creditors with respect to future Permitted Pari Passu Secured Indebtedness; and
- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Subsidiary Guarantees

Each of the Subsidiary Guarantors will, jointly and severally, guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The initial Subsidiary Guarantors will consist of all of the Restricted Subsidiaries other than the Existing Non-Guarantor Subsidiaries. See “Risk Factors – Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral – Our initial Subsidiary Guarantors do not currently have significant operations and certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees.”

The Company will, for so long as any Note remains outstanding, cause each of its future Restricted Subsidiaries (other than those organized under the laws of the PRC or the Exempted Subsidiaries) to guarantee the payment of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor. Notwithstanding the foregoing, the Company may, for so long as any Note remains outstanding, elect to have any future Restricted Subsidiary organized outside the PRC not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary, *provided* that, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors or JV Subsidiary Guarantors (other than Exempted Subsidiaries) do not account for more than 25% of Total Assets.

A Subsidiary Guarantee may be released or replaced in certain circumstances. See “Description of the Notes – The Subsidiary Guarantees and JV Subsidiary Guarantees – Release of the Subsidiary Guarantees and JV Subsidiary Guarantees.” In the case of a Subsidiary Guarantor with respect to which the Company or any of its Restricted Subsidiaries is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% of the Capital Stock of such Subsidiary Guarantor, the Company may (i) release the Subsidiary Guarantees provided by such Subsidiary Guarantor and each of its Restricted Subsidiaries organized outside the PRC, (ii) discharge the pledge of the Capital Stock granted by such Subsidiary Guarantor and its Restricted Subsidiaries organized outside the PRC who have provided Subsidiary Guarantees, and (iii) discharge the pledge of Capital Stock made by the Company or any Subsidiary Guarantor over the shares it owns in such Subsidiary Guarantor, *provided* that after the release of such Subsidiary Guarantees, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC (other than Exempted Subsidiaries) that are not Subsidiary Guarantors or JV Subsidiary Guarantors (including the Subsidiary Guarantors whose Subsidiary Guarantees were released) do not account for more than 25% of Total Assets.

Ranking of Subsidiary Guarantees

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;

- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* in right of payment with the guarantees provided for the 2015 Notes, the 2017 Notes, the January 2018 Notes and all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law). See “Risk Factors – Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral.”

Except as provided under “Subsidiary Guarantees,” a JV Subsidiary Guarantee is required to be delivered by a Subsidiary Guarantor if the Company wishes to release such Subsidiary Guarantor from its Subsidiary Guarantee following a sale by the Company or any of its Restricted Subsidiaries of Capital Stock in (a) such Subsidiary Guarantor or (b) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale is for no less than 20% of the issued Capital Stock of the relevant Subsidiary Guarantor. The JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

- is a general obligation of such JV Subsidiary Guarantor;
- is enforceable only up to the JV Entitlement Amount;
- is effectively subordinated to secured obligations of such JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- is limited to the JV Entitlement Amount and will be senior in right of payment to all future obligations of such JV Subsidiary Guarantor expressly subordinated in right of payment to such JV Subsidiary Guarantee; and
- is limited to the JV Entitlement Amount and will rank at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such JV Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

The Company may also deliver a JV Subsidiary Guarantee instead of a Subsidiary Guarantee on substantially similar conditions for certain Restricted Subsidiaries that are established after the Original Issue Date.

Security to be Granted

The Company has agreed, for the benefit of, *inter alia*, the holders of the Notes, to pledge, or cause the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the capital stock of each initial Subsidiary Guarantor (collectively, the “Collateral”) in order to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor Pledgor under its Subsidiary Guarantee, except as otherwise provided below, for so long as any Indebtedness secured by the Collateral (other than Indebtedness represented by the Notes and the Subsidiary Guarantees) remains outstanding.

The Collateral securing the Notes and the Subsidiary Guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Collateral will be shared on a *pari passu* basis by the holders of the Notes and the holders of other secured indebtedness including the holders of the 2015 Notes, the holders of the 2017 Notes, the holders of the January 2018 Notes and any other creditors with respect to Permitted *Pari Passu* Secured Indebtedness. See “Description of the Notes – Security.”

The Collateral will not consist of the pledge of shares by the Company in Shimao Property Holdings (BVI) Limited or Shimao Property Holdings (BVI) Limited in Peak Castle Assets Limited.

Intercreditor Agreement

The Company, the Subsidiary Guarantor Pledgors, Citibank, N.A. as the Shared Security Agent, and Citibank, N.A. as the trustee, entered into an intercreditor agreement dated January 14, 2010, as amended or supplemented from time to time, to which the trustee for the 2015 Notes acceded on February 10, 2015, to which the trustee for the 2017 Notes acceded on July 3, 2017, to which the trustee for the January 2018 Notes acceded on January 30, 2018 and to which the trustee for the Notes will accede on the issue date of the Notes. This agreement provides that the security interests held in the Collateral will be shared on a *pari passu* basis among the holders of the 2015 Notes, the holders of the 2017 Notes, the holders of the January 2018 Notes, the holders of the Notes and any other creditors with respect to future Permitted *Pari Passu* Secured Indebtedness.

Use of Proceeds

We intend to use the net proceeds from this offering outside the PRC to refinance our existing indebtedness and for business development and other general corporate purposes.

Optional Redemption of the Notes

At any time and from time to time on or after March 15, 2020, the Company may at its option redeem the Notes, in whole or in part, at the redemption price set forth in “Description of the Notes – Optional Redemption” plus accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time and from time to time prior to March 15, 2020, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 105.75% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time prior to March 15, 2020, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date, as set forth in “Description of the Notes – Optional Redemption.”

Repurchase of Notes Upon a Change of Control Triggering Event

Upon the occurrence of a Change of Control Triggering Event, the Company will make an offer to repurchase all outstanding Notes at a purchase price equal to 101% of their principal amount *plus* accrued and unpaid interest, if any, to the repurchase date. See “Description of the Notes – Repurchase of Notes Upon a Change of Control Triggering Event.”

Redemption for Taxation Reason

As more fully described herein, the Company may redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company for redemption, if the Company or a Subsidiary Guarantor or JV Subsidiary Guarantor (if any) would become obliged to pay certain additional amounts as a result of certain changes in specified tax laws. See “Description of the Notes – Redemption for Taxation Reasons.”

Covenants

The Notes, the Indenture governing the Notes and the Subsidiary Guarantees limit the Company’s ability and the ability of its Restricted Subsidiaries to, among other things:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;

- guarantee indebtedness of Restricted Subsidiaries;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation or merger.

These covenants are subject to a number of important qualifications and exceptions described in "Description of the Notes – Certain Covenants."

Transfer Restrictions

The Further Notes and the Subsidiary Guarantees will not be registered under the U.S. Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See "Transfer Restrictions."

Form, Denomination and Registration

The Further Notes will be issued only in fully registered form, without coupons, in minimum denominations of CNY1,000,000 of principal amount and integral multiples of CNY10,000 in excess thereof and will be initially represented by one or more global notes registered in the name of a nominee of a common depository for Euroclear and Clearstream.

Book-Entry Only

The Further Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream for the accounts of its participants, including Euroclear and Clearstream. For a description of certain factors relating to clearance and settlement, see "Description of the Notes – Book-Entry; Delivery and Form."

Delivery of the Further Notes

The Company expects to make delivery of the Further Notes, against payment in same-day funds on or about July 3, 2018, which the Company expects will be the seventh business day following the date of this offering memorandum referred to as "T+7." You should note that initial trading of the Notes may be affected by the T+7 settlement. See "Plan of Distribution."

Trustee

Citicorp International Limited

Principal Paying, Transfer Agent and Registrar Citibank, N.A., London Branch

Shared Security Agent Citibank, N.A.

Listing The Original Notes are listed on the SGX-ST. Approval in-principle has been received from the SGX-ST for the listing and quotation of the Further Notes on the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, 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 Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of CNY1,000,000.

Ratings The Notes are rated BBB- by Fitch Ratings. We cannot assure investors that these ratings will not be adversely revised or withdrawn either before or after delivery of the Further Notes.

Governing Law The Notes and the Indenture are governed by and will be construed in accordance with the laws of the State of New York.

Risk Factors For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see “Risk Factors.”

ISIN/Common Code	<u>ISIN</u>	<u>Common Code</u>
Permanent	XS1790624883	179062488
Temporary	XS1840623992	184062399

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SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary financial and other data. The summary consolidated income statement data for the years ended December 31, 2015, 2016 and 2017 and the summary consolidated balance sheet data as of December 31, 2015, 2016 and 2017 set forth below (except for EBITDA data) have been derived from our audited consolidated financial statements for the years ended and as of December 31, 2016 and 2017, as audited by PricewaterhouseCoopers, our independent certified public accountants. Our financial statements have been prepared and presented in accordance with HKFRS, which differ in certain respects from U.S. GAAP and 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 offering memorandum.

Summary Consolidated Income Statement and Other Financial Data

	For the year ended December 31,			
	2015	2016	2017	2017
	(RMB)	(RMB)	(RMB)	(US\$)
	Unaudited			
	(in thousands, except percentages)			
Revenue	57,732,974	59,286,161	70,425,874	10,824,259
Costs of sales	(41,284,575)	(42,937,532)	(48,996,361)	(7,530,603)
Gross profit	16,448,399	16,348,629	21,429,513	3,293,656
Fair value gains on investment properties				
– net	2,776,694	1,996,673	679,484	104,435
Other income/other gains – net	1,570,998	838,785	545,095	83,780
Selling and marketing costs	(1,615,275)	(1,352,643)	(1,461,804)	(224,675)
Administrative expenses	(3,278,396)	(2,742,720)	(2,989,871)	(459,535)
Other operating expenses	(288,194)	(268,509)	(523,702)	(80,492)
Operating profit	15,614,226	14,820,215	17,678,715	2,717,169
Finance (costs)/income – net	(1,408,648)	(1,175,946)	1,328,414	204,173
Share of results of:				
– Associated companies	108,684	37,584	167,593	25,759
– Joint ventures	(591,853)	(485,975)	(482,969)	(74,231)
	(483,169)	(448,391)	(315,376)	(48,472)
Profit before income tax	13,722,409	13,195,878	18,691,753	2,872,870
Income tax expense	(5,563,671)	(5,685,493)	(8,121,060)	(1,248,184)
Profit for the year	<u>8,158,738</u>	<u>7,510,385</u>	<u>10,570,693</u>	<u>1,624,686</u>
Profit for the year attributable to:				
equity holders of the Company	6,115,784	5,171,855	7,840,494	1,205,062
Non-controlling interests	2,042,954	2,338,530	2,730,199	419,624
Profit for the year	<u>8,158,738</u>	<u>7,510,385</u>	<u>10,570,693</u>	<u>1,624,686</u>
Other Financial Data (Unaudited)				
EBITDA ⁽¹⁾	15,387,069	16,220,993	21,416,529	3,291,660
EBITDA margin ⁽²⁾	26.7%	27.4%	30.4%	30.4%

Notes:

- (1) EBITDA for any period consists of operating profit before fair value gains or losses on the investment properties and certain other special gains or expenses plus depreciation, amortization expenses and capitalized interest under cost of sales. EBITDA is not a standard measure under HKFRS. 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, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow 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 Indenture governing the Notes. Interest expense excludes amounts capitalized. See "Description of the Notes – Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.

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

	For the year ended December 31,			
	2015	2016	2017	2017
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
	Unaudited			
Operating profit for the year	15,614,226	14,820,215	17,678,715	2,717,169
Adjustments:				
Add:				
Capitalized interest recognized in cost of sales	3,450,500	3,606,000	3,909,953	600,949
Depreciation of property and equipment	430,066	430,149	580,353	89,199
Amortization of land use rights	73,963	84,180	84,991	13,063
Impairment of goodwill	–	26	–	–
Less:				
Fair value gain on investment properties – net	2,776,694	1,996,673	679,484	104,435
Gains on disposal of subsidiaries with loss of control	991,456	476,406	59,451	9,137
Gain/(loss) on derivative financial instruments	43,393	140,478	(86,979)	(13,368)
Gain on disposal of investment in structured products issued by banks and other financial institution	–	93,523	90,848	13,963
Gain on acquisition of a subsidiary	–	12,497	–	–
Gains on acquisition of equity interests in associated companies, joint ventures and obtaining control	322,116	–	34,183	5,254
Gains on disposal/closure of associated companies	40,904	–	–	–
Gains on deemed disposal of subsidiaries with loss of control	7,123	–	60,496	9,298

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

Summary Consolidated Balance Sheet Data

	As of December 31,			
	2015	2016	2017	
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
Non-current assets				
Property and equipment	11,571,944	13,493,658	13,513,914	2,077,051
Investment properties	30,025,297	32,270,913	34,036,147	5,231,260
Land use rights	7,921,887	8,218,571	8,176,521	1,256,708
Intangible assets	1,840,684	1,840,658	1,840,658	282,904
Associated companies	898,275	912,465	1,345,018	206,725
Available-for-sale financial assets	1,204,470	941,256	1,068,775	164,268
Joint ventures	9,784,898	9,183,425	13,601,709	2,090,544
Amounts due from related parties	2,774,694	1,923,231	1,471,478	226,162
Deferred income tax assets	1,983,977	2,298,849	2,523,663	387,880
Other non-current assets	1,311,526	1,629,639	7,449,318	1,144,939
	<u>69,317,652</u>	<u>72,712,665</u>	<u>85,027,201</u>	<u>13,068,441</u>
Current assets				
Inventories	118,867,526	120,342,997	133,554,704	20,526,983
Biological assets	–	298,133	318,657	48,977
Properties under development	100,727,237	101,568,030	114,888,153	17,657,986
Completed properties held for sale	18,140,289	18,476,834	18,347,894	2,820,020
Available-for-sale financial assets	–	3,000,000	–	–
Trade and other receivables and prepayments	14,786,878	20,256,536	15,583,786	2,395,184
Prepayment for acquisition of land use rights	11,133,906	17,950,915	21,605,517	3,320,707
Prepaid income taxes	2,115,462	2,691,546	2,743,827	421,718
Amounts due from related parties	1,581,929	2,623,314	16,035,676	2,464,638
Derivative financial instruments	41,782	90,199	1,190	183
Restricted cash	3,817,713	2,875,658	4,469,331	686,924
Cash and cash equivalents	22,591,843	19,359,175	28,537,441	4,386,124
	<u>174,937,039</u>	<u>189,190,340</u>	<u>222,531,472</u>	<u>34,202,461</u>
Current liabilities				
Trade and other payables	25,962,991	27,307,614	33,524,265	5,152,585
Advanced proceeds received	30,766,515	31,903,265	34,117,188	5,243,716
Income tax payable	12,460,061	13,682,645	15,641,375	2,404,035
Borrowings	16,953,596	17,755,309	18,195,220	2,796,554
Amounts due to related parties	24,447,996	27,788,670	33,868,519	5,205,496
Finance lease liabilities	186,620	171,420	130,560	20,067
Deferred income	2,010	–	–	–
	<u>110,779,789</u>	<u>118,608,923</u>	<u>135,477,127</u>	<u>20,822,453</u>
Net current assets	<u>64,157,250</u>	<u>70,581,417</u>	<u>87,054,354</u>	<u>13,380,008</u>
Total assets less current liabilities	<u>133,474,902</u>	<u>143,294,082</u>	<u>172,081,546</u>	<u>26,448,449</u>

	As of December 31,			
	2015	2016	2017	
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	<i>(US\$)</i>
	<i>(in thousands)</i>			Unaudited
Non-current liabilities				
Borrowings	52,867,396	49,188,203	69,309,472	10,652,671
Deferred income tax liabilities	5,471,821	5,666,533	6,025,277	926,068
Finance lease liabilities	386,365	222,353	–	–
	<u>58,725,582</u>	<u>55,077,089</u>	<u>75,334,749</u>	<u>11,578,739</u>
Equity				
Share capital	356,275	348,864	348,864	53,619
Reserves	49,805,385	52,107,187	57,285,819	8,804,669
	50,161,660	52,456,051	57,634,683	8,858,288
Non-controlling interests	24,587,660	35,760,942	39,112,114	6,011,422
	<u>74,749,320</u>	<u>88,216,993</u>	<u>96,746,797</u>	<u>14,869,710</u>

RISK FACTORS

You should carefully consider the risks described below and other information contained in this offering memorandum before making an investment decision. 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 adversely affect our business, financial condition or results of operations. If any of the possible events described below occur, 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 Further Notes, and you could lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

We are dependent on the performance of the PRC property market

Our business and prospects depend on the performance of the property market in the PRC. As of December 31, 2017, we had 165 projects at various stages of development located in cities in the Yangtze River Delta such as Shanghai, Nanjing, Hefei, Wuhu, Xuzhou, Kunshan, Zhangjiagang, Jiangyin, Changshu, Tenghua, Suzhou, Wuxi, Xuzhou, Changzhou, Taizhou, Hangzhou, Shaoxing, Jiaxing, Fenghua, Nantong and Ningbo, cities in the Bohai Rim such as Beijing, Tianjin, Jinan, Yantai, Gu'an, Dalian and Qingdao, cities in Pearl River Delta such as Guangzhou, Foshan, Shenzhen and Hong Kong and key regional cities such as Harbin, Fuzhou, Quanzhou, Hainan, Wuhan, Changsha, Nanning, Xianyang, Nanchang, Chengdu, Chongqing, Yinchuan, Xiamen, Jinjiang, Shenyang, Mudanjiang and Xi'an. Any property market downturn in the PRC generally or, in particular, in Yangtze River Delta, Bohai Rim or other cities and regions where we operate, could adversely affect our business, results of operations and financial condition.

Demand for private residential properties in the PRC, particularly in the Yangtze River Delta and the Bohai Rim, has grown significantly in recent years, but such growth is often coupled with volatility in market conditions and fluctuations in property prices. In addition, demand for properties has been affected and will continue to be affected by the macro-economic control measures implemented by the PRC government from time to time. In recent years, the PRC government has announced a series of measures designed to stabilize the growth of the PRC economy and to stabilize the growth of specific sectors, including the property market, to a more sustainable level. For more information on the measures, see "Regulation."

We cannot assure you that property development and investment activities will continue at past levels or that there will not be an economic downturn in the property markets in the regions and cities where we operate. Our business, financial condition and results of operations have been and will continue to be dependent on the state of the PRC property market, and our business may be affected by adverse developments in the supply and demand for properties or adverse change in property prices in the PRC. Any adverse development in the property market in the regions and cities in China where we operate or may operate in the future could have a material and adverse effect on our business, results of operations and financial condition.

Increasing competition in the PRC, particularly in the Yangtze River Delta and the Bohai Rim, may adversely affect our business and financial condition

In recent years, a large number of property developers have undertaken property development and investment projects in the PRC, particularly in the Yangtze River Delta and the Bohai Rim. The intensity of the competition among property developers in the Yangtze River Delta, the Bohai Rim and other parts in the PRC for land, financing, raw materials and skilled management and labor resources may result in increased cost for land acquisition and construction, a decrease in property prices and delays in the government approval process. An oversupply of properties available for sale could also depress the prices of the properties we sell and may adversely affect our business, financial condition and results of operations.

In addition, the property markets in the Yangtze River Delta, the Bohai Rim and elsewhere in the PRC are rapidly changing. If we cannot respond to changes in market conditions in the Yangtze River Delta, the Bohai Rim and elsewhere or react to changes in customer preferences more swiftly or more effectively than our competitors, our business, results of operations and financial condition could be adversely affected.

We may not be able to obtain sites that are suitable for property developments

We derive a substantial portion of our revenue from sales of properties that we have developed. To have a steady stream of developed properties available for sale and sustainable business growth, we need to replenish and increase our land reserves with additional land suitable for development. Our ability to identify and acquire suitable development sites is subject to a number of factors, some of which are beyond our control.

The supply of substantially all of the land in the PRC is controlled and regulated by the PRC government. The land supply policies adopted by the PRC government directly impact our ability to acquire land use rights for development and our costs of such acquisitions. In recent years, the PRC central and local governments have implemented various measures to regulate the means by which property developers may obtain land. See “– Risks Relating to Our Industry – The PRC government may adopt further measures to cool down the overheating of the property sector.” If we fail to acquire sufficient land reserves in a timely manner and on acceptable terms, or at all, our business, prospects, results of operations and financial condition may be materially and adversely affected.

We may not be able to successfully manage our expansion and growth

We have expanded into second-and third-tier cities in the PRC as well as Hong Kong and plan to increase our penetration into these cities. In addition, we may expand our business into other geographic areas where the local potential customers may not be familiar with our brand. We cannot assure you that we can execute successfully our contemplated expansion plan or that we will succeed in effectively integrating our expanded operations, or that our expanded operations will generate adequate returns on our investments or positive operating cash flows.

As we continue to grow, we must improve our managerial, technical and operational knowledge and skill and allocation of resources, and implement an effective management information system. To effectively manage our expanded operations, we need to continue to recruit and train managerial, accounting, internal audit, engineering, technical, sales and other staff to satisfy our development

requirements. In order to fund our ongoing operations and our future growth, we need to have sufficient internal sources of liquidity or access to additional financing from external sources. Further, we will be required to manage relationships with an increasing number of customers, suppliers, contractors, service providers, lenders and other third parties. Accordingly, we will need to further strengthen our internal control and compliance functions to ensure that we are able to comply with our legal and contractual obligations and reduce our operational and compliance risks. We cannot assure you that we will not experience issues such as capital constraints, construction delays, operational difficulties at new operational locations or difficulties in expanding our existing business and operations and training an increasing number of personnel to manage and operate the expanded business. Neither can we assure you that our expansion plans will not adversely affect our existing operations and thereby have a material adverse effect on our business, financial condition, results of operations and future prospects.

Restrictions on the payment terms for land use rights may adversely affect our financial condition

The fiscal and other measures adopted by the PRC government from time to time may limit our flexibility and ability to use bank loans to finance our property developments and therefore may require us to maintain a relatively high level of internally sourced cash. In November 2009, the PRC government raised the minimum down payment of land premium to 50%. In March 2010, this requirement was further tightened. The PRC government set the minimum land premium at no less than 70% of the benchmark price of the locality where the parcel of land is granted, and the bidding deposit at not less than 20% of the minimum land premium. Additionally, a land grant contract is required to be entered into within 10 working days after the land grant deal is closed, and the down payment of 50% of the land premium is to be paid within one month of signing the land grant contract, with the remaining to be paid in full within one year of the date of the land grant contract in accordance with provisions of such land grant contract, subject to limited exceptions. Such change of policy may constrain our cash otherwise available for additional land acquisition and construction. We cannot assure you that we will have adequate resources to fund land acquisitions (including any unpaid land premiums for past acquisitions), or property developments.

On September 28, 2007, the Ministry of Land and Resources issued revised “Rules regarding the Grant of State-owned Land Use Rights for Construction by Way of Tender, Auction and Listing-for-sale” (招標拍賣掛牌出讓國有建設用地使用權規定), which provides that property developers must fully pay the land premium for the entire parcel under the land grant contract before they can receive a land use rights certificate and commence development on the land. This regulation became effective on November 1, 2007. As a result, property developers are not allowed to bid for a large piece of land, make partial payment, and then apply for a land use rights certificate for the corresponding portion of land in order to commence development, which had been the practice in many Chinese cities. The implementation of such regulation requires property developers to maintain a higher level of working capital, which may have a material adverse effect on our cash flow position, financial condition and business plans.

The land use rights for some of our development sites will not be formally vested until we have received the relevant land use rights certificates

Under current PRC land grant policies, the relevant authorities will not issue the formal land use rights certificate for a piece of land until the developer has paid the land premium in full, completed the resettlement process and is in compliance with other land grant conditions. Although we have obtained the formal land use rights certificates for all our properties under development, we have yet to obtain the formal land use rights certificates for some of our project sites held for future development. As of December 31, 2017, the development sites for which we had not obtained formal land use rights included certain projects we held for future development. In addition, we have experienced a delay in obtaining the land use rights certificate for Nanjing Shimao Bund New City and Xuzhou Shimao Dongdu, primarily due to the lengthy resettlement process to be completed by the local government.

The land use rights for these properties and the land that we may acquire in the future will not be formally vested until we have received the corresponding formal land use rights certificates. If we fail to acquire the land use rights for our projects in a timely manner, or at all, our business and prospects, results of operations and financial condition may be materially and adversely affected.

We may not be able to obtain adequate funding to finance our land acquisitions or property developments

The property development business is capital intensive. We have historically financed our land acquisition and property developments primarily through a combination of capital contributions from our shareholders, bank and other borrowings, internal cash flows, including proceeds from the pre-sale of our properties, and other funds we raised from the capital markets, including the initial public offering of our shares in 2006 and our offering of senior notes, such as, the 2015 Notes, the 2017 Notes, the January 2018 Notes and the Notes, among others. We cannot assure you that we will have sufficient cash flow available for land acquisitions or property developments or that we will be able to achieve sufficient pre-sales and sales to fund land acquisitions or property developments. In addition, we cannot assure you that we will be able to secure external financing on terms acceptable to us or at all. As of December 31, 2017, our borrowings included in non-current liabilities and current liabilities were RMB69,309.5 million (US\$10,652.7 million) and RMB18,195.2 million (US\$2,796.6 million), respectively.

Our ability to arrange adequate financing for land acquisitions or property developments on terms that will allow us to earn reasonable returns depends on a number of factors, many of which 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, which, among other things:

- forbid PRC commercial banks from extending loans to property developers to finance land premiums;
- restrict PRC commercial banks from extending loans for the development of luxury residential properties;

- restrict the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties;
- prohibit commercial banks from taking commodity properties that have been vacant for more than three years as security for mortgage loans; and
- forbid property developers from using borrowings obtained from any local banks to fund property developments outside that local region.

In addition, the PBOC regulates the reserve requirement ratio for commercial banks in the PRC, which affects the availability and cost of financing from PRC commercial banks. The reserve requirement ratio for commercial banks currently ranges from 15.0% to 17.0% with effect from April 25, 2018.

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 flexibility and ability to use bank loans or other forms of financing to finance our property developments and therefore may require us to maintain a relatively high level of internally sourced cash. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We are subject to legal and business risks if we fail to obtain or maintain formal qualification certificates or other requisite government approvals

Property developers in the PRC must obtain a formal qualification certificate in order to engage in a property development business in the PRC. According to the Provisions on Administration of Qualification Certificates of Property Developers (房地產開發企業資質管理規定), newly established developers must first apply for a provisional qualification certificate valid for one year, which can be renewed for a maximum of two additional one-year periods. If a newly established property developer fails to commence developing property within one-year of the provisional qualification certificate becoming effective, it will not be allowed to extend its provisional qualification certificate.

In addition, property developers in the PRC, such as our individual project companies, are required to present a valid qualification certificate when they apply for a pre-sale permit. If a newly established property developer fails to commence developing property within one year of the provisional qualification certificate becoming effective, it will not be allowed to extend its provisional qualification certificate. Experienced property developers must also apply for renewal of their qualification certificates once every two to three years in most cities, subject to annual verification by relevant governmental authorities. It is mandatory under government regulations that developers fulfill all statutory requirements before obtaining or renewing their qualification certificates. In reviewing the renewal of a qualification certificate, the local authority takes into account the property developer's property development investments, history of property development, quality of property construction, expertise of the developer's management, as well as whether the property developer has any illegal or inappropriate operations. Each of our project companies is responsible for, and monitors, the annual submission of its renewal application. If any one of our project companies is unable to meet the relevant requirements, and is therefore unable to obtain or renew its qualification certificate, that project company will typically be given a grace period to rectify any insufficiency or non-compliance, subject to a penalty of between RMB50,000

and RMB100,000. Failure to meet the requirements within the specified timeframe could result in the revocation of the qualification certificate and the business license of such project company. Qualification certificates of certain of our project companies have expired and we are in the process of renewing such certificates. We cannot assure you that the qualification certificates of any of our project companies will continue to be renewed or that formal qualification certificates will be obtained in a timely manner, or at all, as and when they expire. If our project or project management companies are unable to obtain or renew their qualification certificates, they may not be permitted to continue their businesses, which could materially and adversely affect our business, financial condition and results of operations.

Entities engaged in property management should also obtain qualification certifications before commencing their business, pursuant to the Measures on Administration of Qualification Certificates of Property Service Enterprises (物業服務企業資質管理辦法). If any of our property management companies is unable to meet the relevant requirements and therefore unable to obtain or maintain the qualification certificates, our business and financial condition could be materially and adversely affected.

In addition to the above, we cannot assure you that we will not encounter significant problems in making payment of the registered capital in a timely manner or at all, or satisfying other conditions necessary for the issuance of other licenses, certificates, permits or approvals. If we fail to obtain the necessary licenses, certificates, permits or approvals for any of our PRC subsidiaries or property projects, our business, results of operations and financial condition may be materially and adversely affected.

The PRC government has implemented restrictions on the ability of PRC property developers to obtain offshore financing which could affect our ability to deploy the funds raised outside of China in our business in the PRC

On May 23, 2007, MOFCOM and SAFE jointly promulgated the Notice on Further Strengthening and Regulating the Approval and Supervision of Foreign Direct Investment in the Real Estate Industry (關於進一步加強、規範外商直接投資房地產業審批和監管的通知) which provides that foreign-invested real estate enterprises approved to be incorporated by the competent local authority shall promptly complete required filings with MOFCOM. On June 18, 2008, MOFCOM promulgated the Notice on Better Implementation of the Filing of Foreign Investment in the Real Estate Industry (關於做好外商投資房地產業備案工作的通知), according to which, MOFCOM authorizes provincial departments in charge of commerce to verify the record-filing materials of property development projects with foreign investment. These regulations effectively prohibit our ability to fund our PRC subsidiaries by way of shareholder loans. Pursuant to the Guidelines for Administration over Foreign Debt Registration (外債登記管理操作指引) promulgated by SAFE on April 28, 2013 and effective from May 13, 2013, real estate enterprises with foreign investment approved by local MOFCOM and filed with MOFCOM after (and including) June 1, 2007 are not allowed to register foreign debt contracts with SAFE or its local branches; where the foreign-invested real estate enterprise does not fully pay the registered capital, or does not obtain the Land Use Certificate for State-owned Land, or the registered capital for project development fails to reach 35% of total amount of project investment, such enterprise shall not incur foreign debt and SAFE or its local branches shall not register foreign debt contracts for such enterprise.

Furthermore, we cannot assure you that the PRC government will not introduce new policies that further restrict our ability to deploy, or that prevent us from deploying, in China the funds raised outside of China. Therefore, we may not be able to use all or any of the capital that we may raise outside China to finance our projects in a timely manner, or at all.

The nature of our business may expose us to unpredictable and unstable operating cash flows

Our operating cash flow will affect our liquidity and our ability to service our indebtedness. We had a net cash used in operating activities of RMB3,460.5 million (US\$531.9 million) in 2016. We cannot assure you that we will be able to continue to generate and maintain sufficient cash flow to service our indebtedness. If we are unable to make scheduled payments in connection with our debts and other fixed payment obligations as they become due, we may need to refinance such obligations or obtain additional financing. We cannot assure you that our refinancing efforts would be successful or timely or that we could secure additional financing on acceptable terms, or at all. If we fail to maintain sufficient cash flow to service our indebtedness or our refinancing efforts are unsuccessful, our liquidity, business, and financial condition will be materially and adversely affected.

The global economic slowdown and financial crisis have negatively impacted, and may continue to negatively impact, our business

The global economic slowdown and turmoil in the global financial markets beginning in the second half of 2008 have had a negative impact on the PRC economy, which in turn has affected the PRC property market. For example:

- the economic slowdown and tightened credit have resulted in lower demand for residential and commercial properties and declining property prices; and
- the tightening of credit has negatively impacted the ability of property developers and potential property purchasers to obtain financings.

In response to the adverse change in the global economy and the real estate market in the PRC, we scaled back some of our original business expansion plans, and postponed the completion and development schedules of some of our projects. We also slowed the pace of our development schedules for certain projects held for future development and adjusted the selling prices of some of our properties downward.

More recently, global market and economic conditions have continued to be adversely affected by the ongoing credit crisis in Europe, the credit rating downgrade of the United States and Japan, and heightened market volatility in major stock markets. These and other issues resulting from the global economic slowdown and financial market turmoil have adversely impacted, and may continue to adversely impact, home owners and potential property purchasers, which may lead to a decline in the general demand for our properties and erosion of their selling prices. In addition, any further tightening of liquidity in the global financial markets may in the future negatively affect our liquidity. If the global economic slowdown and financial crisis continue or become more severe than currently anticipated, our business, prospects, financial condition and results of operations could be materially and adversely affected.

Our operating results fluctuate from period to period and the fluctuations make it difficult to predict our future performance

For the years ended December 31, 2015, 2016 and 2017, our revenue was RMB57,733.0 million, RMB59,286.2 million and RMB70,425.9 million (US\$10,824.3 million), respectively, and profit for the year was RMB8,158.7 million, RMB7,510.4 million and RMB10,570.7 million (US\$1,624.7 million), respectively. We have derived our revenues principally from the sale of properties, hotel operations and the leasing of investment properties.

For the years ended December 31, 2015, 2016 and 2017, the sale of properties accounted for approximately 94.6%, 94.8% and 94.8%, respectively, of our revenue. Because we derive a significant portion of our revenue from the sale of properties, our results of operations are affected by the demand for our properties and the price at which we are able to sell them. The demand for and average selling price of our properties are in turn, to a large extent, affected by the general condition of the property market and the economy. These and other factors beyond our control (for example, availability of land for acquisition and cost of materials and construction) may lead to fluctuations in our revenue and profit from period to period, and make it difficult to predict our future financial performance.

In addition, we recognize proceeds from the sale of a property as revenue only upon the delivery of the property. In periods in which we pre-sell a large aggregate GFA, we may not generate a correspondingly high level of revenue if the properties pre-sold are not delivered within the same period. Therefore, our revenue and profit during any given period may not be indicative of the actual demand for our properties or sales achieved during that period.

For the years ended December 31, 2015, 2016 and 2017, our hotel operating income and rental income from investment properties, in aggregate, were RMB2,041.2 million, RMB2,176.6 million and RMB2,387.9 million (US\$367.0 million), respectively, and accounted for approximately 3.5%, 3.7% and 3.4%, respectively, of our revenue. We believe that period-to-period comparisons of our operating results may not be as meaningful as they would be for a company with a greater proportion of recurring revenues.

Our results of operations may be adversely affected if we fail to obtain, or there are material delays in obtaining, requisite governmental approvals for a significant number of our property developments

The real estate industry in the PRC is heavily regulated by the PRC government. PRC property developers must comply with various requirements mandated by national and local laws and regulations, including the policies and procedures established by local authorities designed for the implementation of such laws and regulations. In order to develop and complete a property development, a property developer must obtain various permits, licenses, certificates and other approvals from the relevant administrative authorities at various stages of the property development, including land use rights documents, planning permits, construction permits, pre-sale permits and certificates or confirmation of completion and acceptance. Each approval is dependent on the satisfaction of certain conditions. We cannot assure you that we will not encounter material delays or other impediments in fulfilling the conditions precedent to the approvals, or that we will be able to adapt ourselves to new laws, regulations or policies that may come into effect from time to time with respect to the real estate industry in general or the particular processes with respect to the

granting of the approvals. There may also be delays on the part of the administrative bodies in reviewing our applications and granting approvals. If we fail to obtain, or encounter material delays in obtaining, the requisite governmental approvals, the schedule of development and sale of our developments could be substantially disrupted which would materially and adversely affect our business, results of operations and financial condition.

We face risks related to the pre-sale of properties, including the risk that property developments are not completed

We face risks relating to the pre-sale of properties. For example, we may fail to complete a fully or partially pre-sold property development, in which case we would find ourselves liable to purchasers of pre-sold units for losses suffered by them. We cannot assure you that these losses would not exceed any deposits that may have been made in respect of the pre-sold units. In addition, if a pre-sold property development is not completed on time, the purchaser may be entitled to compensation for late delivery. If the delay extends beyond the contractually specified period, or if the actual GFA of a completed property delivered to a purchaser deviates by more than 3% from the GFA originally indicated in the purchase contract, the purchaser will be entitled to terminate the purchase contract and claim damages. Any termination of the purchase contract as a result of our late delivery of properties will have a material adverse effect on our business, financial condition and results of operations.

We face significant property development risks before we realize any benefit from a development

Property developments typically require substantial capital outlay during the construction period and may take months or years before positive cash flows can be generated by pre-sales or sales of completed property developments, if at all. The time and costs required in completing a property development may be subject to substantial increases due to many factors, including shortages of materials, equipment, technical skills and labor, adverse weather conditions, natural disasters, labor disputes, disputes with contractors, accidents, changes in government priorities and policies, changes in market conditions, delays in obtaining the requisite licenses, permits and approvals from the relevant authorities and other unforeseeable problems and circumstances. Any of these factors may lead to delays in, or prevent, the completion of a property development and result in costs substantially exceeding those originally budgeted for. In addition, failure to complete a property development according to its original specifications or schedule, if at all, may give rise to potential liabilities and, as a result, our return on investments may be lower than originally expected.

We may have to bear the resettlement or similar costs associated with our development properties

We purchase land from both the PRC government and private entities. Where land is obtained from the PRC government, resettlement or similar costs are usually included in the land premium payable. Government authorities are required to enter into written agreements with the owners of properties on such land to be demolished to provide for compensation for relocation and resettlement costs. The compensation payable by government authorities cannot be lower than the market value of similar properties at the time of expropriation. If the compensation paid by government authorities increases significantly due to increases in property market prices, the land premiums payable by us may be subject to substantial increases, which could adversely affect our business, results of

operations and financial condition. In addition, any delay or difficulty in the resettlement process may cause a delay in the delivery of the land to us, in whole or in part, and may require an increase in the fees payable in connection with the resettlement process.

We may be liable to our customers for damages if we do not deliver individual property ownership certificates in a timely manner

Property developers are typically required to deliver to purchasers the relevant individual property ownership certificates within 90 days after delivery of the property or within a time frame set out in the relevant sale and purchase agreement. Property developers, including us, generally elect to specify the deadline for the delivery of the individual property ownership certificates in the sale and purchase agreements to allow sufficient time for the application and approval processes. Under current regulations, we are required to submit requisite governmental approvals in connection with our property developments, including land use rights documents and planning and construction permits, to the local bureau of land resources and housing administration within three months after receipt of the completion and acceptance certificate for the relevant properties and apply for the general property ownership certificate in respect of these properties. We are then required to submit within regulated periods after delivery of the properties, the relevant property sale and purchase agreements, identification documents of the purchasers, proof of payment of deed tax, together with the general property ownership certificate, for the relevant local authority's review and the issuance of the individual property ownership certificates in respect of the properties purchased by the respective purchasers. Delays by the various administrative authorities in reviewing the application and granting approval as well as other factors may affect timely delivery of the general as well as individual property ownership certificates. We cannot assure you that we will not become liable to purchasers for late delivery of the individual property ownership certificates due to our own fault or for any other reason beyond our control.

We guarantee mortgage loans of our customers and may be liable to the mortgagee banks if our customers default on their mortgage payments

We arrange for various domestic banks to provide mortgages to the purchasers of our properties. In accordance with market practice, domestic banks require us to provide guarantees in respect of these mortgages. Substantially all of these guarantees are discharged upon earlier of (i) the issuance of the property ownership certificate, which generally takes place within 90 days after we deliver possession of the relevant property to the purchaser, and (ii) the settlement of mortgage loans between banks and purchasers of our properties. In line with industry practice, we do not conduct independent credit checks on our customers but rely instead on the credit checks conducted by the mortgagee banks. As of December 31, 2015, 2016 and 2017, our outstanding guarantees over mortgage loans of our customers amounted to RMB14,100.0 million, RMB20,614.9 million and RMB11,799.1 million (US\$1,813.5 million), respectively. Although we have historically experienced a low rate of default on mortgage loans guaranteed by us, we cannot assure you that such purchaser default rates will not increase in the future. If such default occurs and our relevant guarantee is called upon, our business, results of operations and financial condition could be materially and adversely affected to the extent that there is a material depreciation in the value of the relevant properties or if we are unable to sell the properties due to unfavorable market conditions or other reasons.

Property owners may terminate our engagement as the provider of property management services

We provide post-sales property management services to the owners of certain residential projects that we have developed through a majority owned property management subsidiary in the PRC. The services include rental agency, security management, maintenance, shuttle bus services, clubhouse operation, gardening and landscaping and other customer services. Under PRC laws and regulations, the home owners in a residential community have the right to change the property management company through collective action. If owners of the projects that we have developed elect to discontinue our property management services, our branding strategy and the marketing of our future property development could be adversely and significantly affected.

The hotel industry is dependent on the levels of business and leisure travel, demand for and supply of hotel rooms and other factors

A number of factors, many of which are common to the hotel industry and are beyond our control, could affect our business, including the following:

- adverse development in general economic conditions;
- dependence on business, commercial and leisure travelers and tourism;
- dependence on meeting and conference business;
- the impact of acts of war or increased tensions between certain countries, increased terrorism threats, terrorist events, impediments to means of transportation (including airline strikes, road closures and border closures), extreme weather conditions, natural disasters, outbreaks of diseases and health concerns, rising fuel costs or other factors that may affect travel patterns and reduce the number of business and leisure travelers;
- adverse effects of international market conditions, which may diminish the demand for first class and luxury leisure travel or the need for business travel, as well as national, regional and local political, economic and market conditions where our hotels operate and where our customers live;
- increased competition and periodic local oversupply of guest accommodation, which may adversely affect occupancy rates and room rates;
- increases in operating costs due to inflation, labor costs (including the impact of unionization), workers' compensation and health-care related costs, utility costs (including energy costs), increased taxes and insurance costs, as well as unanticipated costs such as acts of nature and their consequences and other factors that may not be offset by increased room rates;
- seasonality in travel patterns;
- changes in interest rates and in the availability, cost and terms of debt financing; and
- changes in governmental laws and regulations (including trade restrictions), fiscal policies and zoning ordinances and the related costs of compliance.

These factors could have a material adverse effect on our hotel operations, which in turn will affect our financial condition and results of operations.

We incur significant construction and capital expenditures for development and renovation of investment properties and hotels and certain fixed costs in relation to hotel and rental property operations

Unlike properties developed for sale which can be pre-sold (subject to applicable PRC laws relating to pre-sales) to finance other property developments, our investment properties and hotels require significant upfront capital expenditures but generate no cash inflow until the development has been completed and the hotel operation or the lease with respect to the relevant investment properties commences. In addition, our existing investment properties and hotels, and all of our future investment properties and hotels, will require continuing capital expenditures associated with renovations and other capital improvements, some of which are mandated by health, safety or other regulations or by the hotel management partners. The cost of construction and capital improvements could have a material adverse effect on our business, financial condition and results of operations.

The fixed costs associated with owning hotels and investment properties, including rental property operating and maintenance expenses, hotel operating and maintenance expenses, taxes, other fees and payments, may be significant. There may not be sufficient and consistent market demand for hotels and rental properties in our target markets. We may be unable to reduce the fixed costs in a timely manner in response to a decline in demand for our hotel services or investment properties for rental, and any failure to adjust our fixed costs may adversely affect our business, financial condition and results of operations. Moreover, our hotels and investment properties may be subject to increases in operating and other expenses due to adverse changes in contractual terms and increases in tax rates, utility costs, operating expenses, insurance costs, repairs and maintenance and administrative expenses, which could materially adversely affect our business, financial condition and results of operations.

We may not be able to generate adequate returns on our investment properties

The investment returns on our investment properties depend, to a large extent, on the amount of capital appreciation generated, income earned from the rental of the relevant properties, changes in market rates for comparable rentals, the inability to collect rent due to bankruptcy or insolvency of tenants, the costs resulting from periodic maintenance, repair and re-letting, as well as the general operating expenses incurred. Maximizing yields from investment properties also depends to a large extent on active ongoing management and maintenance of the properties. Our ability to eventually dispose of investment properties will be affected by market conditions and levels of liquidity, which may be limited or subject to significant fluctuation in the case of certain types of commercial properties. As many of these factors are beyond our control, we cannot assure you that we will generate adequate returns on our investment properties.

The fair value of our investment properties is likely to fluctuate from time to time and may decrease significantly in the future, which may materially and adversely impact our profitability

We reassess the fair value of our investment properties at every reported balance sheet date. In accordance with HKFRS, gains or losses (as applicable) arising from changes in the fair value of our investment properties should be accounted for in our income statements in the period in which they arise. Our valuations are based on current prices in an active market for similar properties or estimated by adopting income capitalization approach based on existing and current market rents for similar properties, using capitalization rates that reflect current market assessments of the uncertainty in the market. Based on such valuation, we recognized the aggregate fair market value of our investment properties on our consolidated balance sheets, and recognized changes in fair values of investment properties and the relevant deferred tax in our consolidated income statements. For the years ended December 31, 2015, 2016 and 2017, we recognized fair value gains on our investment properties of RMB2,776.7 million, RMB1,996.7 million and RMB679.5 million (US\$104.4 million), respectively.

Fair value gains or losses do not, however, change our cash position as long as the relevant investment properties are held by us, and accordingly do not increase our liquidity in spite of the increased profit represented by any fair value gains. The amount of revaluation adjustments has been, and will continue to be, subject to market fluctuations. Macroeconomic factors, including economic growth rate, interest rate, inflation rate, urbanization rate and disposable income level, in addition to any government regulations, can substantially affect the fair value of our investment properties and affect the supply and demand in the PRC property market. All these factors are beyond our control and we cannot assure you that changes in market conditions will continue to create fair value gains on our investment properties at the historical levels, or at all, or that the fair value of our investment properties will not decrease in the future. If the fair value of our investment properties declines, our profitability would be materially and adversely affected.

Our results of operations may be affected by the performance and reputation of the hotel management partners that manage our hotels

Some of our hotels are managed by third-party hotel management partners pursuant to management agreements and other related agreements. Therefore, our results of operations may be affected by the performance of these hotel management partners, as well as any adverse publicity or other adverse developments that may affect these companies or their brands generally.

Under the terms of these management agreements, the third-party hotel management partners control the daily operations of our hotels. Although we monitor our hotel management partners' performance, we do not have the direct authority to require any hotel to be operated in a particular manner or to govern any particular aspect of the daily operations of any hotel (for instance, setting room rates or managing hotel operating staff). Thus, even if we believe our hotels are being operated inefficiently or in a manner that does not result in optimal or satisfactory occupancy rates, gross operating profit margins or other performance indicators, we may not be able to require the management partners to change the way they manage our hotels.

All revenue generated by our hotels, including credit card receivables, is paid into an operating account held by us, from which operating and other expenses for the relevant hotels (including certain taxes), management fees and deposits into any reserve funds required by the applicable management agreement are drawn. In addition, in the event that we wish to replace any of our management partners, we may be unable to do so under the terms of our management agreements or we may need to pay substantial termination fees and may experience disruptions at the affected hotels. The effectiveness and performance of the hotel management partners in managing our hotels will, therefore, significantly affect the revenue, expenses and value of our hotels.

Our hotel management partners and our anchor tenants may have interests that are not aligned with our objectives for our hotels and investment properties

Our hotel management partners and anchor tenants that rent and operate the retail units owned by us have non-exclusive arrangements with us and may own, operate or franchise other properties, including the properties that may compete with the properties owned by us. Therefore, the hotel management partners and our anchor retail tenants may have interests that differ from with our interests with respect to short-term or long-term goals and objectives. To the extent the interests of our hotel management partners and anchor retail tenants conflict with our interests, the operation of our hotel and retail properties can be disadvantaged and harmed.

Our financing costs are affected by changes in interest rates

Our financing costs and as a result, our business, financial condition and results of operations, are affected by changes in interest rates. A substantial portion of our borrowings are linked to benchmark lending rates published by the PBOC. The PBOC benchmark one-year lending rates in China (which directly affects the property mortgage rates offered by commercial banks in the PRC) as of December 31, 2015, 2016 and 2017 were 4.35%, 4.35% and 4.35%, respectively. The PBOC may raise lending rates in the future, in which case our business, financial condition and results of operations will be adversely affected as a result. We are also exposed to fluctuations in the Hong Kong Interbank Offered Rate (“HIBOR”) and the London Interbank Offered Rate (“LIBOR”), to which the interest rate for some of our borrowings, including offshore loan facilities with various banks, are linked. For details on such indebtedness, see “Description of Other Material Indebtedness.” Higher interest rates may increase our finance costs, and our business, financial condition and results of operations could be adversely affected. As of December 31, 2017, we had RMB87,504.7 million (US\$13,449.2 million) of outstanding borrowings (including the 2015 Notes and various offshore facilities), and the effective interest rate on our outstanding borrowings was approximately 4.88%. Our interest expenses on the total borrowings for the years ended December 31, 2015, 2016 and 2017 were RMB5,501.3 million, RMB5,425.6 million and RMB5,734.0 million (US\$881.3 million), respectively.

The illiquidity of property investments and the lack of alternative uses of hotel and retail properties could significantly limit our ability to respond to adverse changes in the performance of our properties

Because property investments in general are relatively illiquid, our ability to promptly sell one or more of our investment properties in response to changing economic, financial and investment conditions is limited. The property market is affected by various factors, such as general economic conditions, availability of financing, interest rates, supply and demand, many of which are beyond

our control. We cannot predict whether we will be able to sell any of our investment properties for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a purchaser and to complete the sale of a property. In addition, if we sell an investment property during the term of that property's management agreement or tenancy agreement, we may have to pay termination fees to our hotel management partners or our anchor retail tenants.

In addition, hotels and retail properties may not be readily converted to alternative uses if they became unprofitable due to competition, age, decreased demand or other factors. The conversion of hotel and retail properties to alternative uses generally requires substantial capital expenditures. We cannot assure you that we will have sufficient funds to carry out the conversion. These factors and any others that would impede our ability to respond to adverse changes in the performance of our hotels and retail properties could affect our ability to compete against our competitors and results of operations.

Our Chairman, Mr. Hui Wing Mau, is able to exercise substantial influence over our corporate policies and direct the outcome of corporate actions

As of December 31, 2017, approximately 67.88% of our outstanding shares were beneficially owned by Mr. Hui Wing Mau. Subject to compliance with applicable laws, by maintaining such ownership, Mr. Hui Wing Mau is able to exercise substantial influence over our corporate policies, appoint our directors and officers and vote on corporate actions requiring shareholders' approval. In addition, Mr. Hui Wing Mau owns a number of private companies based in the PRC and Hong Kong (collectively, the "Private Group"). Under the present contractual non-competition undertaking arrangement, subject to certain exceptions, the Private Group is not permitted to undertake any business that competes with us in the PRC, except for the existing projects undertaken by the Private Group as of October 27, 2007. See "Related Party Transactions – Non-competition Undertaking." Furthermore, being our Chairman, Mr. Hui Wing Mau is able to exercise substantial control over our business. In particular, the strategic goals and interests of Mr. Hui Wing Mau may not be aligned with our strategy and interests of those of the holders of the Notes, and could reduce the level of management flexibility that would otherwise exist with a more diversified shareholder base.

A deterioration in our brand image could adversely affect our business

We regard the "Shimao" brand name and the related trademarks and devices we use as important assets to our business. Any negative incident or negative publicity concerning us or our property developments could adversely affect our reputation and business. Brand value is based largely on subjective consumer perceptions and can be damaged even by isolated incidents that degrade consumer trust. Consumer demand for our products and our brand value could diminish significantly if we fail to preserve the quality of our products, or fail to deliver a consistently positive consumer experience in each of our complexes, or if we are perceived to act in an unethical or socially irresponsible manner. In addition, any unauthorized use or infringement of our brand name may impair the value we have built in our brand name, damage our reputation and materially and adversely affect our business and results of operations.

Our success depends on the continued service of our Chairman, Mr. Hui Wing Mau, and continued efforts of other management and key personnel

We depend on the continued service of our Chairman, Mr. Hui Wing Mau. He has over 28 years of experience in the property development, property investment and hotel operation and in-depth knowledge of the PRC real estate industry, strategic planning and business management. If we lose the services of Mr. Hui Wing Mau, our business could be adversely affected.

In the PRC real estate industry, competition for senior management and key personnel is intensive while the pool of qualified candidates is very limited, and we cannot assure you that any member of senior management or other key personnel is willing or able to continue in his or her present position or that we will be able to find and hire a suitable replacement, or if he or she is recruited by a competitor or departs to start a competing business. Moreover, along with our growth and expansion into other regional markets in the PRC, we will need to employ, train and retain additional suitable skilled and qualified management and employees from a wider geographical area. If we cannot attract and retain suitable personnel, our business and future growth may be materially and adversely affected.

Disputes with joint venture partners may adversely affect our business

We have, and expect to have in the future, interests in PRC joint venture entities in connection with our property development plans. We do not have control of the board of directors of certain joint venture companies, and therefore we do not have the right to control the management of the relevant joint venture companies. A deterioration in our relationship with the other joint venture partners could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, in accordance with PRC law, certain matters relating to a sino-foreign joint venture require the consent of all parties to the joint venture. PRC joint ventures may involve risks associated with the possibility that our joint venture partners may:

- have economic or business interests or goals that are inconsistent with ours;
- take actions contrary to our instructions or requests or contrary to our policies or objectives;
- be unable or unwilling to fulfill their obligations under the relevant joint venture agreements; or
- have financial difficulties.

Furthermore, any actual or perceived deterioration in the reputation of our joint venture partners could have an adverse impact on our business operations, profitability and prospects.

In addition, a disagreement with any of our joint venture partners or project development partners in connection with the scope or performance of our respective obligations under the project or joint venture or cooperation arrangement could affect our ability to develop or operate a property. Our joint venture partners or project development partners may be unable or unwilling to perform

their obligations under the relevant agreements, including their obligation to make required capital contributions and shareholder loans, whether as a result of financial difficulties or otherwise. A serious dispute with our joint venture partners or project development partners or the early termination of our joint venture or cooperation arrangements could adversely affect our business, financial condition and results of operations and would divert resources and management's attention.

Should a situation arise in which we cannot complete a project being jointly developed with our joint venture partners or property development partners, due to one of the above reasons or for any other reason, the rights and obligations of each party with respect to the uncompleted project will be determined by the relevant joint venture or cooperation agreements. If such agreements are silent or inconclusive with regard to such rights and obligations, the resolution of any dispute may require arbitration or, failing that, litigation, which could have an adverse effect on our business, results of operations and financial condition. See “– We have been and may continue to be involved from time to time in disputes, administrative, legal and other proceedings arising out of our operations and may face significant liabilities or suffer damage to our reputation as a result.” In addition, even if a jointly developed project is successfully completed, the project may not be well received by the market and we may not realize all the benefits we anticipated.

We cannot assure you that we will not encounter any of the foregoing problems with respect to our joint venture partners or project development partners. Our capital contributions to the joint development projects may not be offset by revenues or other benefits from such projects. Furthermore, we cannot assure you that properties in our joint development projects will be well received by the market. If our joint venture entities experience any delay or difficulty in the development of the projects due to any of the above factors or if the projects are not as well received by the market as anticipated, there could be a material adverse effect on our business, financial condition, results of operations and prospects.

We may be adversely affected by the performance of independent contractors

In line with industry practice, we engage independent contractors to provide various property development services, including construction, piling and foundation, engineering, interior decoration, mechanical and electrical installation and utilities installation. We select independent contractors through open tenders. We typically invite contractors to tender bids based on their reputation for quality, track record, price and references, and once a contract is awarded, we supervise the construction progress. However, we cannot assure you that the services rendered by any of these independent contractors or subcontractors will be completed in a timely manner or be of satisfactory quality. If the performance of any independent contractor is not satisfactory, we may need to replace that contractor or take other remedial actions, which could increase the cost and lengthen the time required to complete the work and the whole project. In addition, we are expanding our business into other regional markets in China, and there may be a shortage of contractors that meet our quality requirements in such markets. Moreover, contractors may undertake projects for other developers, engage in risky or unsound practices or encounter financial or other difficulties, which may affect their ability to complete their work for us on time or within budget. Any of the above factors could have a material and adverse effect on our reputation, business, results of operations and financial condition.

Our profit margin is sensitive to increases in the cost of construction materials

A significant component of our cost of sales is construction costs, which are susceptible to the price volatility of construction materials such as steel and cement. The purchase cost for construction materials are generally accounted for as part of the contractor fees pursuant to our arrangements with the relevant contractors. In line with industry practice, if there is a significant price fluctuation (depending on the specific terms of each contract), we will be required to re-negotiate existing construction contracts to top up payment to, or receive refunds from, the contractors, depending on the price movement. In addition, as we typically pre-sell our properties prior to their completion, we may not be able to pass the increased costs on to our customers if construction costs increase subsequent to the pre-sale. As such, our profit margin is sensitive to changes in the market prices for construction materials and our profit margins will be adversely affected if we are not able to pass all of the increased costs onto our customers.

There are significant uncertainties under the EIT Law relating to the withholding tax liabilities of our PRC subsidiaries

We are a holding company that is financially dependent on distributions from our subsidiaries and our business operations are principally conducted through our PRC subsidiaries. Prior to December 31, 2007, dividend payments to foreign investors made by foreign-invested enterprises, such as dividends paid to us by our PRC subsidiaries, were exempt from PRC withholding tax. The Enterprise Income Tax Law (“EIT Law”) and the implementation regulations to the EIT Law issued by the PRC state council, which became effective on January 1, 2008 and was amended on February 24, 2017, provide that any dividend payment to foreign investors will be subject to a withholding tax at a rate of 10%. Pursuant to the Arrangement Between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) signed on August 21, 2006, a company incorporated in Hong Kong may be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more interest in that particular PRC subsidiary at the time of the distribution, or 10% if it holds less than a 25% interest in that subsidiary, although as described below there is uncertainty under a State Administration of Taxation circular regarding whether certain intermediate Hong Kong holding companies will be eligible for benefits under this arrangement. Many of our PRC subsidiaries are currently wholly owned by Hong Kong subsidiaries. However, according to the Announcement on Promulgating the Administrative Measures for Non-resident Taxpayers to Enjoy the Treatment Under Taxation Treaties (關於發布<非居民納稅人享受稅收協定待遇管理辦法>的公告), which became effective on November 1, 2015, the 5% withholding tax rate does not automatically apply and approvals from competent local tax authorities are required before an enterprise can enjoy any benefits under the relevant taxation treaties. Moreover, according to a tax circular issued by the State Administration of Taxation in February 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate for which an offshore entity would otherwise be eligible. There is no assurance that the PRC tax authorities will grant approvals on the 5% withholding tax rate on dividends received by our subsidiaries in Hong Kong from our PRC subsidiaries.

There can be no assurance that the PRC government will not amend or revise the taxation laws, rules and regulations to impose stricter tax requirements, higher tax rates or apply the EIT Law, or any subsequent changes in PRC tax laws, rules or regulations retroactively. As there may be different applications of the EIT Law and any amendments or revisions, comparisons between our past financial results may not be meaningful and should not be relied upon as indicators of our future performance. If such changes occur and/or if such changes are applied retroactively, such changes could materially and adversely affect our results of operations and financial condition.

The relevant PRC tax authorities may challenge the basis on which we calculate our LAT obligations

Under PRC tax laws and regulations, our PRC subsidiaries that are in the property development business are subject to LAT which is collected by the local tax authorities. All income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value as defined by the relevant tax laws, with certain exemptions available for the sale of ordinary residential properties if the appreciation values do not exceed 20% of the total deductible items as defined in the relevant tax laws. Sales of commercial properties are not eligible for such exemption. We estimate and make provisions for the full amount of applicable LAT in accordance with the requirements set forth in the relevant PRC tax laws and regulations, but only pay a portion of such provisions each year as required by the local tax authorities. For the years ended December 31, 2015, 2016 and 2017, LAT charged to our income tax expense was RMB1,696.0 million, RMB2,011.9 million and RMB4,012.6 million (US\$616.7 million), respectively. For the same periods, we made payments for provisional LAT in the amount of RMB1,896.7 million, RMB1,894.2 million and RMB5,236.3 million (US\$804.8 million), respectively. Our LAT provision balance as of December 31, 2015, 2016 and 2017 totaled RMB4,151.4 million, RMB4,172.4 million and RMB5,474.3 million (US\$841.4 million), respectively. Our LAT provisions are based on our estimate of the portion of our apartment units and residential parts of our combined-use buildings that are eligible for the exemption available to ordinary residential properties. We cannot assure you that the tax authorities will agree with our estimation or the basis on which we calculate our LAT obligations. In the event that the tax authorities assess us with additional LAT and we are unable to successfully challenge such assessments, our net profits after tax may be adversely affected. We cannot assure you that the LAT obligations we are to assess and provide for in respect of the properties that we develop will be sufficient to cover the LAT obligations which the local tax authorities ultimately impose on us.

Effective February 1, 2007, the State Administration of Taxation issued the Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (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), which requires that:

- final settlement of LAT will be conducted on a project-by-project basis. For multi-phase projects, each phase will be required to undergo the LAT clearance and settlement process;
- the appreciated value of ordinary residential properties and non-ordinary residential properties contained within a project shall be calculated separately; and
- property developers must conduct final settlement if one of the following conditions is satisfied:

- the project is completed and has been sold entirely;
- the project is transferred as a whole before the completion of the construction; or
- the land-use rights of the project are transferred.

This notice also stipulates that the PRC tax authorities may require the property developer to conduct final LAT settlement if one of the following conditions is met:

- for completed projects, the area sold exceeds 85% of the total saleable area or, though less than 85%, the rest of the saleable area has already been rented or is being self-used;
- the project has held a sale/pre-sale license for at least three years but has not been sold entirely;
- the taxpayer has applied for tax de-registration but the LAT settlement has not been conducted; or
- other situations set forth by the provincial PRC tax authorities.

Local provincial tax authorities can formulate their own implementation rules according to the notice and local situations and there are uncertainties as to how they will enforce this notice. On May 12, 2009, the State Administration of Taxation issued the Provisions on Administration of the Settlement of Land Appreciation Tax (土地增值稅清算管理規程), which became effective on June 1, 2009 and stipulates in detail the procedures for settlement of LAT and methods of calculating LAT. Furthermore, on May 25, 2010, the State Administration of Taxation published the Circular on Strengthening the Collection and Administration of Land Appreciation Tax (關於加強土地增值稅徵管工作的通知) (the “SAT Circular”). According to the SAT Circular, all local governments were required to make adjustments to the then prevailing provisional LAT rate. In addition to safeguarding housing, the provisional LAT rate of provinces in the eastern region shall not be lower than 2%, while the provinces in the middle and northeastern regions shall not be lower than 1.5% and the provinces in the western region shall not be lower than 1%; and the local governments may determine the provisional LAT rate applicable to different types of real estate. Pursuant to the Circular on Value-Added Tax Policies for Financial, Real Estate Development, Education Ancillary Service and Other Services (關於明確金融、房地產開發、教育輔助服務等增值稅政策的通知), which became effective on May 1, 2016, except for choosing the simplified tax method, when the general taxpayer sells real estate project developed by itself, the compensation for demolition paid to other companies or individuals upon land acquisition is permitted to be deducted for the purpose of calculation the sales income. Besides, if a real estate developer establishes a project company to develop the granted land after paying the land premium, the project company, for the purpose of calculation the sales income, may deduct the land premium that has been paid by the real estate developer if fulfilling the relevant requirements of changing the grantee of the land use right.

In the event that relevant tax authorities change their requirements as to the amount or timing of payment of provisional LAT, our cashflow may be materially and adversely affected. See “Management’s Discussion and Analysis of Financial Conditions and Results of Operations – Selected Income Statement Items – Income Tax Expenses.”

We may not receive full compensation for assistance we provide to local governments to clear land for government land sales

In certain cases where we are interested in acquiring land, we assist local governments in clearing the land and relocating the original residents so that the land is ready for tender, auction and listing-for-sale. In such cases, we enter into land clearance agreements with the relevant land authorities, under which we are reimbursed for expenses we incur for land clearance and relocation and we are entitled to a portion of the profit realized by the local government on the land sale. However, we do not have the exclusive right to acquire the land use rights. We also do not control the timing of the sale of the land use rights in respect of the land that we have cleared, nor do we set the price for which such land use rights are sold. Sales of the land use rights are conducted by the relevant local government land authorities, through a bidding, auction or listing-for-sale process. We cannot assure you that we will win bids in a timely manner or at all; nor can we assure you that the relevant land authorities will achieve an optimal price for the sale of such land use rights. We cannot assure you that we will be reimbursed for the expenses that we incur in connection with such land clearance, nor can we assure you that we will receive any profit from such land use right sales. Furthermore, the PRC State Council on January 3, 2008 issued the Notice to Enhance the Economical and Intensive Use of Land (關於促進節約集約用地的通知), which requires the use of a public bidding process in selecting companies to assist the local governments with land clearance work. This new requirement may limit our ability to participate in such land clearance work in the future. We cannot assure you that the PRC government will not issue any additional laws or regulations revoking the land clearance agreements that we have entered into with the local governments.

Our land use rights may be subject to forfeiture by the PRC government if we fail to comply with 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 payment of fees, 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. Any violation of the land grant terms may also restrict a developer's ability to participate, or prevent it from participating, in future land bidding. Specifically, under current PRC laws and regulations, if we fail to commence development for more than one year from the commencement date stipulated in the land grant contract, the relevant PRC land bureau may serve a warning notice on us and impose an idle land fee on the land of up to 20% of the land premium. If we fail to commence development for more than two years from the commencement date stipulated in the land grant contract, the land use rights are subject to forfeiture to the PRC government, unless the delay in development is caused by government actions or force majeure. Moreover, even if the time of commencement of the land development is in line with the land grant contract, if (i) the developed GFA on the land is less than one-third of the total GFA of the project under the land grant contract or the total capital invested is less than one-fourth of the total estimated investment of the project under the land grant contract; and (ii) the development of the land has been suspended for over one year without government approval, the land will be treated as idle land.

As of the date of this offering memorandum, we have not commenced the construction work for certain of our projects as required by the relevant land grant contracts. We may be subject to idle land fees or forfeiture as the delays in construction work with respect to certain parcels of project land were due to the failure to complete the requisite demolition works by the local governments or other

governmental reasons. For example, two parcels of land owned by our subsidiary, Pingtan Straits Ruyi City Development Construction Co., Ltd., were deemed as idle land by local Land and Resources Bureau and in December 2016, we received notices in respect of these two idle land imposing penalties of a total amount of RMB18.86 million. As of the date of this offering memorandum, we have not paid such penalties as we have initiated objection appeals to relevant authorities against such penalties. However, there is no assurance that our objection will be successful. We cannot assure you that there will be no significant delays in the commencement of construction or the development of our properties in the future, or that our developments will not be subject to idle land penalties or be taken back by the government as a result of such delays. The imposition of substantial idle land penalties could have a material and adverse effect on our business, results of operations and financial condition. If any of our land is taken back by the government, we would not only lose the opportunity to develop the property, but we would also lose our prior investments in the development, including land premiums paid and costs incurred in connection with such land.

The terms on which mortgages are available to purchasers of our properties, if at all, may affect our sales

Most of our purchasers rely on mortgages to fund their purchases. An increase in interest rates may significantly increase the cost of mortgage financing, thus reducing the attractiveness of mortgages as a source of financing for property purchases and adversely affecting the affordability of residential properties. In addition, the PRC government and commercial banks may also increase the down payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers. Furthermore, mortgagee banks may not lend to any individual borrower if the monthly repayment of the anticipated mortgage loan would exceed 50% of the individual borrower's monthly income.

Each of the CBRC and PBOC in recent years has issued regulations on, among others, the minimum interest rate, down payment and minimum interest for mortgage loans. In the event that mortgage loans for property purchases becomes more difficult to obtain or that the costs of such financing increases, many of our prospective customers who rely on such financing may not be able to purchase our properties, which in turn will materially and adversely affect our business, financial condition and results of operations.

In addition, in line with industry practice, we provide guarantees to banks for mortgages they offer to our purchasers. If there are changes in laws, regulations, policies and practices that would prohibit property developers from providing guarantees to banks in respect of mortgages offered to property purchasers and these banks would not accept any alternative guarantees by other third parties, or if no third party is available in the market to provide such guarantees, it may become more difficult for property purchasers to obtain mortgages from banks during pre-sales. Such difficulties in financing could result in a substantially lower rate of pre-sales of our properties, which could adversely affect our business, financial condition and results of operations. We cannot assure you that such changes in laws, regulations, policies or practices will not occur in the future.

There is no assurance that certain current ancillary facilities will continue to provide services to the owners or users of our property developments

The ancillary facilities within our residential communities enhance the value of our properties by improving the overall quality and value of the surrounding areas, thus offering a better living environment to the owners and users of our properties. However, we do not operate or manage some of the ancillary facilities, such as schools and hospitals. We cannot assure you that these facilities will continue to operate and provide services in our residential communities. In the event that these facilities cease to operate in our residential communities, our properties may become less attractive and competitive and this may adversely affect the value of our properties.

Potential liability for environmental problems could result in substantial costs

We are subject to a variety of laws and regulations concerning the protection of health and the environment. The particular environmental laws and regulations which apply to any given project development site vary greatly according to the site's location, the site's environmental condition, the present and former uses of the site, as well as the nature of the adjoining properties. Environmental laws and conditions, may cause us to incur substantial compliance and other costs and can prohibit, delay, or severely restrict project development activity in environmentally-sensitive regions or areas.

As required by PRC laws and regulations, each project we develop is required to undergo environmental assessments and an environmental impact assessment document is required to be submitted to the relevant government authorities for approval before commencement of construction. The local authorities may request us to submit the environmental impact documents, issue orders to suspend construction and impose a penalty amounting up to 5% of the total investment amount for each of our projects for which approval of the environmental impact assessment document has not been granted prior to the commencement of construction. For certain of our projects, we did not submit the environmental impact assessment documents although we have obtained the relevant government approvals to commence the development of these projects. We have completed the construction of the relevant properties. However, we cannot assure you that the local authorities will not impose a penalty upon us with respect to these projects due to the lack of such environmental impact documents or that an environmental investigation with respect to these projects in the future would not reveal material environmental liabilities.

In addition, PRC law requires environmental facilities to be included in a property development to pass the inspection by the environmental authorities in order to obtain completion approval before commencing operations. Some of our residential and hotel property projects have environmental facilities that are subject to this requirement. If we fail to comply with such requirement, the local environmental authorities may order us to suspend the construction or use of such facilities, which may disrupt our operations and adversely affect our business. The authorities may also impose on us a fine of up to RMB100,000 per breach in respect of such projects. We cannot assure you that we can obtain such approvals in a timely manner, or at all. In the event that such completion approvals cannot be obtained or if fines are imposed on us, our business, results of operations and financial condition may be materially and adversely affected.

We may suffer certain losses not covered by insurance

We do not carry comprehensive insurance against potential losses or damages with respect to our properties under development other than those buildings over which our lending banks have security interests and for which we are required to maintain insurance coverage under the loan agreements. We believe that such liabilities should be borne by construction companies. In addition, we do not carry insurance for any liability arising from tortious acts committed or alleged to have been committed on work sites. We cannot assure you that we will not be sued or held liable for damages due to such tortious acts. Moreover, there are certain losses for which insurance is not available on commercially practicable terms in China, such as losses suffered due to earthquake, war, civil unrest and certain other events of force majeure. If we suffer from any losses, damages and liabilities in the course of our operations and property development, we may not have sufficient funds to cover any such losses, damages or liabilities or to replace any property development that has been destroyed. In addition, any payment we make to cover any losses, damages or liabilities could have a material adverse effect on our business, results of operations and financial condition.

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. Generally, we receive quality warranties from our third-party contractors with respect to our 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, or if the money retained by us to cover our payment obligations under the quality warranties is not sufficient, we 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 our business, financial condition and results of operations.

We have been and may continue to be involved from time to time in disputes, administrative, legal and other proceedings arising out of our operations and may face significant penalties or liabilities or suffer damage to our reputation as a result

We have been and may continue to be involved in disputes with various parties involved in the construction, development and the sale of our properties, including contractors, suppliers, construction workers, joint venture partners and property purchasers. These disputes may lead to protests, legal or other proceedings and may result in damage to our reputation, incurrence of substantial costs and the diversion of resources and management's attention. As many of our projects are comprised of multiple phases, purchasers of our properties in earlier phases may file legal actions against us if our subsequent planning and development of the relevant project is perceived to be inconsistent with our representations and warranties made to such earlier purchasers. These disputes and legal and other proceedings may materially and adversely affect our reputation and our business, results of operations and financial condition. See "Business – Legal Proceedings."

In addition, we may have compliance issues with regulatory bodies in the course of our operations, which may subject us to administrative penalties, administrative proceedings and unfavorable decrees that result in liabilities and cause delays to our property developments. For example, in June 2017, Shanghai Stock Exchange issued a notice to pay regulatory attention to Shanghai Shimao, Mr. Hui in his capacity as the actual controller of Shanghai Shimao, and Yu Feng, Company Secretary of Shanghai Shimao in respect of the deemed non-compliance by Mr. Hui of the non-competition undertaking to Shanghai Shimao as well as the delayed disclosure of the aforesaid situations. If we, our executive officers or other agents fail to comply with any applicable laws or regulations, including the PRC or other applicable anti-corruption laws or regulations, our reputation and our business, results of operations and financial condition may be materially and adversely affected.

Our investments in the PRC are subject to the PRC government's control over foreign investment in the property sector

The PRC government has in the past imposed restrictions on foreign investment in the property sector to curtail the overheating of the property sector by, among other things, increasing the capital and other requirements for establishing foreign-invested real estate enterprises, tightening foreign exchange control and imposing restrictions on purchases of properties in China by foreign persons. On May 23, 2007, the MOFCOM and the SAFE jointly issued the Notice on Further Strengthening and Regulating the Approval and Supervision on Foreign Investment in Real Estate Sector in the PRC (關於進一步加強、規範外商直接投資房地產業審批和監管的通知), which, among other things, provides that:

- foreign investment in the property sector in the PRC relating to high-end properties should be strictly controlled;
- prior to obtaining approval for the establishment of foreign-invested real estate enterprises, either (i) both the land use rights certificates and housing title certificates should be obtained, or (ii) contracts for obtaining land use rights or housing titles should be entered into;
- foreign-invested real estate enterprises approved by local authorities shall immediately register with the MOFCOM through a filing made by the local authorities; and
- foreign exchange administration authorities and banks authorized to conduct foreign exchange business should not affect foreign exchange settlements of capital account items for those foreign-invested real estate enterprises which have not completed their filings with the MOFCOM or fail to pass the annual inspection.

In June 2008, the MOFCOM issued the Notice Regarding Completing the Registration of Foreign Investment in the Real Estate Sector (關於做好外商投資房地產業備案工作的通知), often known as “Notice No. 23.” According to Notice No. 23, the MOFCOM entrusts provincial MOFCOM departments to verify materials on records of foreign-invested real estate enterprises. Notice No. 23 requires that the establishment (including the increase of registered capital) of a foreign-invested real estate enterprise shall comply with the project company principle of engaging in one approved real estate project only.

In addition, in December 2010, the MOFCOM promulgated the Notice on Strengthening Administration of the Approval and Registration of Foreign Investment into Real Estate Industry (關於加強外商投資房地產業審批備案管理的通知), which, among other things, provides that where a real estate enterprise is established within the PRC with foreign capital, it is prohibited to purchase and/or sell real estate properties, completed or under construction, within the PRC for arbitrage purposes. The local MOFCOM authorities shall not approve investment companies to engage in real estate development and management.

According to the Guide for Foreign Debt Registration Management (外債登記管理操作指引) promulgated in April 2013, for foreign-invested real estate enterprises established on or before June 1, 2007, SAFE could process such enterprises' foreign debt registration in an amount not exceeding the difference between the total investment in such enterprise and its registered capital; for those established after June 1, 2007, SAFE refuses any registration for entering into foreign debts; for those who fail to pay up their registered capital or obtain land use rights certificates, or if such companies fund less than 35% of the total investment amount of a development project, such enterprises are not permitted to borrow foreign debt and SAFE shall reject any registration for entering into foreign debt.

On June 24, 2014 MOFCOM and SAFE jointly promulgated the Circular on Improving the Record-filing for Foreign Investment in Real Estate (關於改進外商投資房地產備案工作的通知), which simplifies the procedures for registering foreign investment in real estate, MOFCOM registration has been changed from paper-based to electronic and selective examination will be conducted during and after the registration.

On November 6, 2015, MOFCOM and SAFE jointly promulgated the Circular on Further Improving the Record-filing of Foreign Investments in Real Estate (關於進一步改進外商投資房地產備案工作的通知), which further simplifies the record-filing procedures for foreign-invested real estate enterprises and cancels the registry publication procedures on the website of MOFCOM.

Restrictions imposed by the PRC government on foreign investment in the property sector may affect our ability to make further investments in our PRC subsidiaries and as a result may limit our business growth and have an adverse effect on our business, financial condition and results of operations.

Certain facts and statistics are derived from publications not independently verified by us, the Initial Purchasers or our respective advisers

Facts and statistics in this offering 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, the Initial Purchasers or our or their respective advisers 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.

We benefit from government grants which may be withdrawn

In the years ended December 31, 2015, 2016 and 2017, certain of our subsidiaries, including Taizhou Shimao New City Real Estate Development Co., Ltd., have received incentive grants from relevant government authorities in respect of the business operated by our Group in various areas. These government grants are given to encourage the furtherance of our business. For the years ended December 31, 2015, 2016 and 2017, we received a total government grants of RMB108.1 million, RMB75.7 million and RMB161.4 million (US\$24.8 million), respectively. Governmental grants are one-off, non-recurrent payments and vary according to local governmental policies. The amounts granted were determined and paid at the sole discretion of respective government authorities. The PRC State Council and the Ministry of Finance issued circulars on November 2014 and December 2014, respectively, to clean up and standardize preferential policies provided by PRC local governments. The circulars provide that, without the approval of the PRC State Council, no PRC local government and authority may provide fiscal preferential policies for enterprises, and the implementation of all preferential policies which violate laws and regulations shall be ceased as of December 1, 2014. We cannot assure you that the amount of subsidies granted to us in the past will be paid in any future period. In the event that we are no longer eligible for such grants for any reason, including if we fail to comply with the conditions imposed on such grants, our business, financial condition and results of operations could be materially and adversely affected.

RISKS RELATING TO OUR INDUSTRY

The PRC property market has been cyclical and our property development activities are susceptible to significant fluctuations

Historically, the PRC property market has been cyclical. The rapid expansion of the property market in certain major provinces and cities in China, including Shanghai and Beijing, in the early 1990s culminated in an over-supply in the mid-1990s and a corresponding fall in property values and rentals in the second half of the decade. Since the late 1990s, private residential property prices and the number of residential property development projects have gradually increased in major cities as a result of an increase in demand driven by domestic economic growth. In particular, prices of residential properties in certain major PRC cities such as Shanghai and Beijing therein have experienced rapid and significant growth. In recent years however, risk of property over-supply is increasing in parts of China, where property investment, trading and speculation have become overly active. In the event of actual or perceived over-supply, together with the effect of the PRC government policies to curtail the overheating of the property market, property prices may fall significantly and our revenue and results of operations will be adversely affected. We cannot assure you that the problems of over-supply and falling property prices that occurred in the mid-1990s will not recur in the PRC property market and the recurrence of such problems could adversely affect our business and financial condition. The PRC property market is also susceptible to the volatility of the global economic conditions as explained in “– Risks Relating to Our Business – The global economic slowdown and financial crisis have negatively impacted, and may continue to negatively impact, our business.”

The cyclical nature of the property market in the PRC affects the optimal timing for the acquisition of sites, pace of development as well as the sale of properties. This cyclicity, combined with the lead time required for completion of projects and the sale of properties, means that our results of operations relating to property development activities may be susceptible to significant fluctuations from year to year.

The PRC government may adopt further measures to cool down the overheating of the property sector

Our business is subject to extensive governmental regulation. As with other PRC property developers, we must comply with various requirements mandated by PRC laws and regulations, including the policies and procedures established by local authorities designed to implement such laws and regulations. In particular, the PRC government exerts considerable direct and indirect influence on the PRC property sector by imposing industry policies and other economic measures, such as control over the supply of land for property development, foreign exchange, property financing, taxation and foreign investment. Through these policies and measures, the PRC government may restrict or reduce land available for property development, raise 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.

In the second half of 2008 and 2009, in order to mitigate the impact of the global economic slowdown, the PRC government has adopted measures to encourage domestic consumption in the residential property market and support property development. These policies may not necessarily have a positive effect on our operations and our future business development. Starting from late 2009, the PRC government has revised or terminated such favorable policies according to changes in market conditions and adopted certain new policies to cool down the property market, including, without limitation:

- abolishing certain preferential treatments relating to business taxes payable upon transfers of residential properties by property owners and imposing more stringent requirements on the payment of land premium by property developers;
- imposing property purchase restrictions on non-local citizens, decreasing the maximum loan to value ratio of mortgage loans offered to borrowers;
- restricting purchasers, in certain targeted cities, from acquiring second (or further) residential properties and restricting non-residents that cannot provide any proof of local tax or social security payments for more than a specified time period from purchasing any residential properties;
- launching new property tax schemes in certain cities such as Chongqing and Shanghai on a trial basis, levying property tax on part of individual residential properties in these two cities;
- levying business tax, which was replaced by value-added tax since May 1, 2016, on the full amount of the transfer price if an individual owner transfers a residential property within five years of purchase in certain cities;

- urging provincial governments to implement home purchase restrictions to control property prices, listing certain criteria for the implementation of the restrictions, and, in the second half of 2011, extending such home purchase restrictions to certain second- and third-tier cities in addition to the 40-plus first- and second-tier cities which have already adopted home purchase restriction measures;
- strictly enforcing the idle land related law and regulations; and
- restricting the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties.

See “– Risks Relating to Our Business – We are dependent on the performance of the PRC property market.”

These measures may limit our access to capital resources, reduce market demand for our products and increase our operating costs in complying with these measures. We cannot assure you that the PRC government will not reinstate property-purchase or other limitations that have been removed or adopt additional and more stringent measures, which could further slowdown property development in China. If we fail to adapt our operations to new policies, regulations and measures that may come into effect from time to time with respect to the real property industry, or such policy changes disrupt our business or cause us to incur additional costs, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Property development in the PRC is still at an early stage and lacks adequate infrastructural support

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, particularly in Shanghai and Beijing, has been growing rapidly in recent years, such growth is often coupled with volatility in market conditions and fluctuation in property prices. We cannot predict how much and when demand will develop, as many social, political, economic, legal and other factors may affect the development of the market. The level of uncertainty is increased by limited availability of accurate financial and market information as well as the overall low level of transparency in the PRC.

Limited availability of accurate financial and market information and the general low level of transparency in China contribute to overall uncertainty. Purchasers and investors may be discouraged from acquiring new properties due to the lack of a liquid secondary market for residential properties. In addition, the limited amounts and types of mortgage financing available to individuals, together with the lack of long-term security of legal title and enforceability of property rights, may also inhibit demand for residential property.

Furthermore, risk of property over-supply is increasing in parts of China, where property investment, trading and speculation have become overly active. In the event of actual or perceived over-supply, property prices may fall significantly and our revenue and results of operations will be adversely affected.

If as a result of any one or more of these or similar factors as described above, demand for residential property or market prices decline significantly, our business, results of operations and financial condition may be materially and adversely affected.

RISKS RELATING TO THE PRC

Changes in the PRC's political, economic and social conditions, laws, regulations and policies may have an adverse effect on us

Substantially all of our assets are located in the PRC and substantially all of our revenue is sourced from the PRC. Accordingly, to a significant degree, our results of operations, financial position and prospects are subject to the economic, political and legal developments of the PRC.

The economy of the PRC differs from the economies of most developed countries in many respects, including but not limited to the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth by allocating of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Certain measures taken by the PRC government to guide the allocation of resources may benefit the overall economy of China but may, however, also have a negative effect on us. For example, our business, financial condition, results of operations and prospects may be adversely affected by government control over capital investments, changes in tax regulations that are applicable to us, change in interest rates and statutory reserve rates for banks or government control in bank lending activities.

In addition, demand for and sales of our properties and our business, financial condition and results of operations may be adversely affected by:

- political instability or changes in political or social conditions in the PRC;
- changes in laws and regulations or the interpretation of laws and regulations;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation; and
- imposition of additional restrictions on currency conversion and remittances abroad.

Interpretation of PRC laws and regulations involves uncertainty and the current legal environment in China could limit the legal protections available to you

Our business and operations are primarily conducted in China and is governed by PRC laws and regulations. Our principal operating subsidiaries are located in China and are subject to the PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions have limited precedential value and can only be used as a reference. Additionally, PRC

written laws are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commercial transactions, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to property ownership and development. However, because these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree of uncertainty and the legal protection available to you may be limited. For example, we have registered the issuance of the Notes with the NDRC with reference to the NDRC Notice and are required to file a post-issuance report with the NDRC within 10 PRC working days in the PRC pursuant to the registration certificate. As the NDRC Notice is a new regulation, there are still uncertainties regarding its interpretation, implementation and enforcement by the NDRC. If we fail to complete such filing in accordance with the relevant requirements, due to any change in the relevant regulation we may be subject to penalties or other enforcement actions by relevant PRC government authorities. Depending on the governmental agency or the presentation of an application or case to such agency, we may receive less favorable interpretations of laws and regulations than our competitors. For example, on September 14, 2015, the NDRC issued the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知), which provides that enterprises domiciled within the PRC and their overseas subsidiaries or branches should file and register with the NDRC prior to issuance of foreign debt instruments and report relevant information on the issuance of the foreign debt instruments in relation to foreign debt with a maturity of more than one year to the NDRC within ten business days in the PRC after the completion of each issuance. In practice, enterprises incorporated outside of the PRC and controlled by individuals (other than those controlled by PRC enterprises as expressly provided in the NDRC Notice) may also be required by the NDRC to comply with the NDRC Notice. We have registered the issuance of the Notes with the NDRC pursuant to the NDRC Notices. Nevertheless, as the NDRC Notice is a new regulation, there are still uncertainties regarding its interpretation, implementation and enforcement by the NDRC. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may cause difficulties in the enforcement of our land use rights, entitlements under our permits, and other statutory and contractual rights and interests.

The PRC national economy and economies in different regions of the PRC may be adversely affected by natural disasters, acts of God, and occurrence of epidemics

Our business is subject to general economic and social conditions in the PRC, in particular, in regions where our property development projects are located. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. Some regions in China, including certain cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome, or SARS, H5N1 avian flu or the human swine flu, also known as Influenza A (H1N1). For instance, a serious earthquake and its successive aftershocks hit Sichuan province in May 2008 and subsequently, resulting in tremendous loss of lives and injury and destruction of assets in the region. In April 2013, another earthquake and aftershocks struck Sichuan province again and the epicenter was approximately 100 kilometers from Chengdu. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. A recurrence of SARS or an outbreak of any other epidemics

in China, such as the H5N1 or H7N9 avian flu, Ebola or the human swine flu, especially in the cities where we have operations, may result in material disruptions to our property development and our sales, which in turn may adversely affect our business, financial condition and results of operations.

It may be difficult to enforce any judgments obtained from non-PRC courts against us in the PRC

Substantially all of our assets are located within the PRC. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United Kingdom, Japan or many other countries. Therefore, it may be difficult for you to enforce against us in the PRC any judgments obtained from non-PRC courts.

RISKS RELATING TO THE NOTES

We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries

We are a holding company with no material operations. We conduct our operations through our PRC subsidiaries. The Notes will not be guaranteed by any current or future PRC subsidiaries. Moreover, the Notes will not be guaranteed by certain other Non-Guarantor Subsidiaries and under the terms of the Indenture, Subsidiary Guarantors may be able to release their Subsidiary Guarantees subject to certain conditions and become Non-Guarantor Subsidiaries. Our primary assets are loans to and ownership interests in our PRC subsidiaries, which are held through the Subsidiary Guarantors and certain Non-Guarantor Subsidiaries and may be held by JV Subsidiary Guarantors or New Non-Guarantor Subsidiaries in the future. The Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) do not and may not have material operations. Accordingly, our ability to pay principal and interest on the Notes and the ability of the Subsidiary Guarantors and JV Subsidiary Guarantors (if any) to satisfy their obligations under the Subsidiary Guarantees or JV Subsidiary Guarantees will depend upon our receipt of principal and interest payments on the intercompany loans and distributions of dividends from our subsidiaries.

Creditors, including trade creditors of our PRC subsidiaries and other Non-Guarantor Subsidiaries and any holders of preferred shares in such entities, would have a claim on the Non-Guarantor Subsidiaries' assets that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our Non-Guarantor Subsidiaries (including obligations of our Non-Guarantor Subsidiaries under guarantees issued in connection with our business), and all claims of creditors of our Non-Guarantor Subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of December 31, 2017, our PRC subsidiaries had indebtedness in the amount RMB37,755.6 million (US\$5,802.9 million) and capital commitment and contingent liabilities arising from guarantees of RMB50,427.5 million (US\$7,750.6 million). The Notes and the Indenture do not restrict the ability of our subsidiaries to issue certain categories of guarantee in the ordinary course of business. In addition, our secured creditors or those of any Subsidiary Guarantor or JV Subsidiary Guarantor would have priority as to our assets or the assets of such Subsidiary Guarantor or JV Subsidiary Guarantor securing the related obligations over claims of holders of the Notes.

Under the terms of the Notes, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse guarantee (a “JV Subsidiary Guarantee”) following the sale or issuance to a third party of not less than a 20% equity interest in such subsidiary or its direct or indirect majority shareholders (subject to the satisfaction of certain conditions). Recovery under a JV Subsidiary Guarantee is limited to an amount equal to our proportional interest in the issued share capital of such JV Subsidiary Guarantor multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year end of the Company. As a result, the amount that may be recovered by the Trustee pursuant to a JV Subsidiary Guarantee (compared to a Subsidiary Guarantee) is reduced, which in turn may affect your ability to recover any amounts due under the Notes.

Further, after our 2015 Notes are fully redeemed or repaid, all the Subsidiary Guarantees and JV Subsidiary Guarantees (if any) may be released. As such, creditors of all our subsidiaries and any holders of preferred shares in our subsidiaries, would have a claim over our subsidiaries’ assets that would be prior to the claims of holders of the Notes.

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 offering of the Notes, a substantial amount of indebtedness. Our total borrowings (both current and non-current), including our then outstanding senior notes, as of December 31, 2015, 2016 and 2017 were RMB16,112.4 million, RMB17,266.9 million and RMB17,536.9 million (US\$2,695.4 million), respectively. As of December 31, 2017, our total borrowings included in non-current liabilities and current liabilities were RMB69,309.5 million (US\$10,652.7 million) and RMB18,195.2 million (US\$2,796.6 million), respectively. We incurred further indebtedness after December 31, 2017 including the January 2018 Notes. See “Description of Other Indebtedness.”

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

- limit our ability to satisfy our obligations under the Notes 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 indentures governing the Notes, the 2015 Notes, the 2017 Notes and the January 2018 Notes, our ability to incur additional debt is subject to limitations on indebtedness and preferred stock covenants. Under such covenants, 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 Net Income (which is a significant component of Consolidated EBITDA) for the Notes, the 2015 Notes, the 2017 Notes and the January 2018 Notes includes our unrealized gains on valuation adjustments on our investment properties, our Consolidated EBITDA and therefore our ability to incur additional debt under such covenants could be substantially larger when compared to other similarly situated PRC senior notes issuers whose covenants do not typically include such unrealized gains in the definition of consolidated net income. In addition, because our definition of Consolidated Interest Expense for the Notes, the 2015 Notes, the 2017 Notes and the January 2018 Notes excludes the interest expense on indebtedness of third parties that we guarantee (except to the extent that such interest expense is actually paid by us), our Consolidated Interest Expense and our ability to incur additional debt could be even larger when compared to other similarly situated PRC senior notes issuers whose covenants would typically include such interest expense in the definition of consolidated interest expense. Furthermore, the limitations on indebtedness and preferred stock covenant in the terms of the Notes is even more relaxed than that in the terms of the 2015 Notes. Once the 2015 Notes are fully redeemed or their terms are similarly amended, we will be able to incur even more debt. 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. If our onshore subsidiaries incur additional debt, the ratings assigned to the Notes by any rating agency may be adversely affected which could adversely affect the market price of the Notes. See “– The ratings assigned to the Notes may be lowered or withdrawn in the future.”

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.

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 Notes. 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, applicable laws and restrictions contained in the debt instruments of such subsidiaries. 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 Notes. These restrictions could reduce the amounts that we

receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes and the ability of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) to satisfy their obligations under the Subsidiary Guarantees or JV Subsidiary Guarantees, as the case may be.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations and such profits differ from profits determined in accordance with HKFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. 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 practice, our PRC subsidiaries may pay dividends once or twice a year. 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%, subject to prior approvals from competent local tax authorities. In addition, some of our PRC subsidiaries are subject to certain restrictions on dividend distribution under their loan agreements with the relevant banks. See “Description of Other Material Indebtedness.” As a result of such limitations, there could be timing limitations on payments from our PRC subsidiaries to meet payments required by the Notes or satisfy our obligations under the Notes or the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees, as the case may be, and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption.

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 Notes or the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees, as the case may be.

The Renminbi is not a freely convertible currency

The Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the U.S. dollar and Hong Kong dollar, despite the significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current accounts. Participating banks in Hong Kong have been permitted to engage in the settlement of Renminbi trade transactions under a pilot scheme introduced in July 2009. This represents a current account activity. The pilot scheme was extended in June 2010 to cover twenty provinces and cities in China and to make Renminbi trade and other current account item settlement available in all countries worldwide. On December 3, 2013, the MOFCOM promulgated the Announcement on Issues Concerning Cross-border RMB Direct Investment (Announcement of the Ministry of Commerce [2013] No. 87) 《(關於跨境人民幣直接投資有關問題的公告》商務部公告2013年第87號) (the “MOFCOM Announcement”) to further facilitate Renminbi inbound direct investments by foreign investors. On October 13, 2011, the PBOC promulgated the Administrative Measures on Settlement of Cross-Border Renminbi Direct Investment (PBOC Announcement 2011 No. 23) 《(外商直接投資人民幣結算業務管理辦法》中國人民銀行公告[2011] 23號) (the “PBOC Measures”) and amended in 2015 to set forth rules for settlements of Renminbi

inbound direct investments. The MOFCOM Announcement and the PBOC Measures provide more detailed rules for cross-border Renminbi direct investments and settlements. We cannot assure you whether the relevant PRC authorities will adopt any other new regulations or rules to loosen or further strengthen the administration on the remittance of Renminbi for foreign direct investments.

There is only limited availability of Renminbi outside China, which may affect the liquidity of the Notes and our ability to source Renminbi outside China to service the Notes

As a result of the restrictions by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside of China is limited. Since February 2004, in accordance with arrangements between the PRC central government and the Hong Kong government, licensed banks in Hong Kong may offer limited Renminbi-denominated banking services to Hong Kong residents and specified business customers. The PBOC has also established a Renminbi clearing and settlement system for participating banks in Hong Kong. On July 19, 2010, further amendments were made to the Settlement Agreement on the Clearing of CNY Business (the “Settlement Agreement”) between the PBOC and Bank of China (Hong Kong) Limited (the “CNY Clearing Bank”) to further expand the scope of Renminbi business for participating banks in Hong Kong. Pursuant to the revised arrangements, all corporations are allowed to open Renminbi accounts in Hong Kong; there is no longer any limit on the ability of corporations to convert Renminbi; and there will no longer be any restriction on the transfer of Renminbi funds between different accounts in Hong Kong.

However, the current size of Renminbi-denominated financial assets outside China is limited. As of December 31, 2017, the total amount of Renminbi deposits held by institutions authorized to engage in Renminbi banking business in Hong Kong amounted to approximately RMB559 billion. In addition, participating banks are also required by the HKMA to maintain a total amount of Renminbi (in the form of cash and its settlement account balance with the CNY Clearing Bank) of no less than 25% of their Renminbi deposits, which further limits the availability of Renminbi that participating banks can utilise for conversion services for their customers. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The CNY Clearing Bank only has access to onshore liquidity support from PBOC to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations in relation to cross-border trade settlement and for personal customers of up to RMB20,000 per person per day. The CNY Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. As a result the participating banks will need to source Renminbi from the offshore market to square such open positions. Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated in the future which have the effect of restricting availability of Renminbi offshore. The limited availability of Renminbi outside China may affect the liquidity of the Notes. To the extent we are required to source Renminbi in the offshore market to service the Notes, there is no assurance that we will be able to source such Renminbi on satisfactory terms, if at all.

Investment in the Notes may subject investors to foreign exchange rate risks

The value of the Renminbi against the Hong Kong dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and by many other factors. The Notes are denominated and payable in Renminbi. If an investor measures its investment returns by reference to a currency other than Renminbi, an investment in the Notes entails foreign exchange related risks, including possible significant changes in the value of Renminbi relative to the currency by reference to which an investor measures its investment returns. Depreciation of the Renminbi against such currency could cause a decrease in the effective yield of the Notes below their stated coupon rates and could result in a loss when the return on the Notes is converted into such currency. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the Notes.

We may designate members of the Restructuring Group (as defined in “Description of the Notes”) as Unrestricted Subsidiaries under the Indenture if and when we decide to proceed with the Restructuring, which members will not be subject to various covenants under the Indenture

Although we do not have any specific plan yet, we may designate members of the Restructuring Group as Unrestricted Subsidiaries under the Indenture, if and when we consider appropriate, subject to certain conditions, including, among others, that our Board of Directors has determined in good faith that the designation of Unrestricted Subsidiaries is necessary to obtain approval from the relevant stock exchange for the Restructuring. Following such designation:

- interest expenses on Indebtedness (as defined in the Indenture) of such entity will not be included in the calculation of our Consolidated Interest Expense (as defined under “Description of the Notes”), other than such interest expenses on Indebtedness that is Guaranteed and paid by us or a Restricted Subsidiary;
- the net income of the Restructuring Group will not be included in the calculation of our Consolidated Net Income and Consolidated EBITDA under the Indenture except to the extent of the cash actually distributed to us or any Restricted Subsidiary as a dividend or other distribution from the Restructuring Group;
- any Investment by us or any Restricted Subsidiary in the Restructuring Group would need to satisfy the “Limitation on Restricted Payments” covenant; and
- future transactions between us or any Restricted Subsidiary on the one hand and any member of the Restructuring Group on the other will need to comply with the requirements in the “Limitation on Transactions with Shareholders and Affiliates” covenant, except for those that (i) are entered into in connection with the Restructuring, or (ii) are entered into in the ordinary course of business, on fair and reasonable terms and are disclosed in the offering documents issued in connection with the Restructuring, or any amendment, modification, extension or replacement thereof, subject to certain conditions.

As a result of any such designation, the value of assets subject to the restrictive covenants under the Indenture may decrease and the market price and trading of the Notes may be materially affected. Accordingly, you are cautioned as to our intended initial designation of Unrestricted Subsidiaries under the Indenture, notably the subsidiaries within the Restructuring Group, and our ability to designate further Unrestricted Subsidiaries subject to the conditions set forth in the Indenture.

We may not be able to repurchase the Notes upon a Change of Control Triggering Event

We must offer to purchase the Notes upon the occurrence of a Change of Control Triggering Event, at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See “Description of the Notes.”

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 outstanding Notes. Our failure to make the offer to purchase or purchase the outstanding Notes would constitute an Event of Default under the Notes. 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 Notes and repay the debt.

In addition, the definition of Change of Control Triggering Event for purposes of the indenture governing the Notes does not necessarily afford protection for the holders of the Notes 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 indenture governing the Notes 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 Notes and the ability of a holder of the Notes to require us to purchase its notes 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.

The insolvency laws of the Cayman Islands and other local insolvency laws may differ from U.S. bankruptcy law or those of another jurisdiction with which holders of the Notes are familiar

Because we are incorporated, and future Subsidiary Guarantors and JV Subsidiary Guarantors may be incorporated, under the laws of the Cayman Islands, an insolvency proceeding relating to us or any such Subsidiary Guarantor or JV Subsidiary Guarantor, even if brought in the United States, would likely involve Cayman Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law. In addition, our initial Subsidiary Guarantors are incorporated, and the JV Subsidiary Guarantors may be incorporated, in the BVI or Hong Kong and the insolvency laws of the BVI and Hong Kong may also differ from the laws of the United States or other jurisdictions with which the holders of the Notes are familiar.

We conduct substantially all of our business operations through PRC-incorporated subsidiaries in China. The Subsidiary Guarantors, as equity holders in our PRC subsidiaries, are necessarily subject to the bankruptcy and insolvency laws of China in a bankruptcy or insolvency proceeding involving any of such PRC subsidiaries. Any JV Subsidiary Guarantors which become equity holders of our PRC subsidiaries would also be subject to such laws. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of the United States and other jurisdictions with which the holders of the Notes are familiar. You should analyze the risks and uncertainties carefully before you invest in our Notes.

We may be unable to obtain and remit foreign exchange

Our ability to satisfy our obligations under the Notes 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 under certain circumstances) 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 Notes.

If we are unable to comply with the restrictions and covenants in our debt agreements, including the indentures governing the 2015 Notes, the 2017 Notes, the January 2018 Notes and the Notes, there could be a default under the terms of these agreements, which could cause repayment of our debt to be accelerated

If we are unable to comply with the restrictions and covenants in the Indenture governing the Notes, or our current or future debt obligations and other agreements (including the indentures governing the 2015 Notes, the 2017 Notes, the January 2018 Notes and the Notes), 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 indentures governing the Notes, the 2015 Notes, the 2017 Notes and the January 2018 Notes, 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 Notes, the 2015 Notes, the 2017 Notes and the January 2018 Notes, or result in a default under our other debt agreements, including the indentures governing the Notes, the 2015 Notes, the 2017 Notes and the January 2018 Notes. 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 Notes, the 2015 Notes, the 2017 Notes, and the January 2018 Notes 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 indentures governing the Notes, the 2015 Notes, the 2017 Notes and the January 2018 Notes and other debt agreements include a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our Restricted Subsidiaries, to:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on their capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of Restricted Subsidiaries;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation or merger.

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 Notes 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 developments jointly with other PRC property developers or enter into other cooperative arrangements. As a result, we may need to make investments in joint ventures or other third parties and such entities may or may not be Restricted Subsidiaries. Although the indenture governing the Notes restricts us and our Restricted Subsidiaries from making investments in Unrestricted Subsidiaries or minority joint ventures, these restrictions are subject to important exceptions and qualifications. For example, we may make unlimited investment in entities in which we hold at least 30% of the voting stock and may make investments in entities in which we hold less than 30% up to 35% of our total assets. See "Description of the Notes."

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

The Original Notes are listed on the SGX-ST. Although approval in-principle has been received from the SGX-ST for the listing and quotation of the Further Notes 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. We have been advised that the Initial Purchasers intend to make a market in the Notes, but the Initial Purchasers are not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See “Transfer Restrictions.” We cannot predict whether an active trading market for the Notes will develop or be sustained.

The ratings assigned to the Notes and our corporate ratings may be lowered or withdrawn in the future

The Notes are rated BBB-by Fitch Ratings. The ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. In addition, we have been assigned a long-term corporate credit rating of BB+ with a stable outlook by Standard and Poor’s Rating Services, a corporate family rating of Ba2 with a stable outlook by Moody’s Investors Service and a long-term foreign currency issuer default rating of BBB-with a stable outlook by Fitch Ratings. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that the ratings on the Notes or our corporate credit rating will remain for any given period of time or that a rating will not be lowered, put on negative outlook or CreditWatch negative or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant, including as a result of the incurrence of further debt. We have no obligation to inform holders of the Notes of any such revision, downgrade, negative outlook, CreditWatch negative or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

Certain transactions that constitute “connected transactions” under the Listing Rules will not be subject to the “Limitation on Transactions with Shareholders and Affiliates” covenant

Our shares are listed on the Hong Kong Stock Exchange and we are required to comply with the Listing Rules, which provide, among other things, that any transaction between a listed company or any of its subsidiaries, on the one hand, and a “connected person” of such listed company, on the other hand, is a “connected transaction” that, if the value of such transaction exceeds the applicable de minimis thresholds, will require the prior approval of the independent shareholders of such listed company. The definition of “connected person” to a listed company includes, among others, any 10% or more shareholder of (i) such listed company or (ii) any subsidiary of such listed company. The concept of “connected person” also captures “associates,” which include, among others, (a) any subsidiary of such “connected person,” (b) any holding company of such “connected person” and any subsidiary of such holding company, and (c) any company in which such entity or entities mentioned in (a) and (b) above taken together has/have the power to exercise control, directly or indirectly, of 30% or more of the voting power of such company.

The “Limitation on Transactions with Shareholders and Affiliates” covenant in the Notes only applies to transactions between the Company or any Restricted Subsidiary, on the one hand, and (x) any holder (or any Affiliate of such holder) of 10% or more of the shares of the Company or (y) any Affiliate of the Company, on the other hand. As such, transactions between the Company or any Restricted Subsidiary, on the one hand, and an Affiliate of any Restricted Subsidiary, on the other hand, will not be captured by such covenant, even though they may be connected transactions under the Listing Rules and subject to any requirements under the Listing Rules are subject to the independent shareholders’ requirement under the Listing Rules. As a result, we are not required by the terms of the Notes to ensure that any such transactions are on terms that are fair and reasonable, and we will not need to deliver officers’ certificates or procure the delivery of fairness opinions of accounting, appraisal or investment banking firms to the trustee of the Notes for any such transactions.

The liquidity and price of the Notes following the offering may be volatile

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and proposals for new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in price for comparable companies could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. 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 offering memorandum has been prepared in accordance with HKFRS, which differ in certain respects from U.S. GAAP and generally accepted accounting principles in other jurisdictions, or other GAAPs, which might be material to the financial information contained in this offering memorandum. We have not prepared a reconciliation of our consolidated financial statements and related footnotes between HKFRS and U.S. GAAP or between HKFRS and other GAAPs. In making an investment decision, you must rely upon your own examination of us, the terms of the offering and our financial information. You should consult your own professional advisers for an understanding of the differences between HKFRS and U.S. GAAP or between HKFRS and other GAAPs and how those differences might affect the financial information contained in this offering memorandum.

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

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

Under the EIT Law we may be classified as a “resident enterprise” of the PRC, which could result in unfavorable tax consequences to us and our non-PRC holders of the Notes

Under the EIT Law, an enterprise established outside of China with “de facto management organization” located within China will be considered a “resident enterprise” in the PRC and consequently will be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define “de facto management” as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. In April 2009, the State Administration of Taxation specified certain criteria for the determination of the “de facto management bodies” for foreign enterprises that are controlled by PRC enterprises. However, no definition of “management body” has been provided for enterprises established offshore by individuals or foreign enterprises such as our Company. Therefore, it is uncertain whether we will be deemed as a PRC “resident enterprise” for the purposes of the EIT Law. If the PRC tax authorities determine that we are a “resident enterprise” for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. We may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income from sources outside the PRC, such as income from any investment outside the PRC of any portion of the offering proceeds, would be subject to PRC enterprise income tax at a rate of 25%, whereas no direct tax is imposed on enterprises under the laws of the Cayman Islands.

Interest paid by us to our foreign investors and gain on the sale of our Notes may be subject to taxation under PRC tax laws

Under the EIT Law, if we are deemed as a “resident enterprise” in the PRC, PRC withholding tax at the rate of 10% (or lower treaty rate, if any) might be applicable to interest paid by us to investors that are “non-resident enterprises” if such “non-resident enterprise” investors do not have an establishment or place of business in China or if, despite the existence of such establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China. Any gain realized on the transfer of the Notes by “non-resident enterprise” investors would be subject to a 10% PRC tax if we were treated as a PRC “resident enterprise” and such gain is regarded as income derived from sources within China. In the case of “non-resident individual” investors, the PRC income tax on interest and gains may be imposed at a rate of 20% (or lower treaty rate, if any). If we were a PRC “resident enterprise” and were required under the EIT Law to withhold PRC income tax on interest payable to our Note holders, we would be required to, subject to certain exceptions, pay such additional amounts as would result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Notes, and could have a material adverse effect on our ability to pay interest on, and repay the principal amount of, the Notes, as well as our profitability and cash flow. In addition, if you are required to pay PRC income tax on the transfer of our Notes, the value of your investment in our Notes may be materially and adversely affected. It is unclear whether, if we are considered a PRC “resident enterprise,” holders of our Notes might be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

We may be able to redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest in the event we are required to pay additional amounts because we are treated as a PRC “resident enterprise”

In the event we are treated as a PRC “resident enterprise” under the EIT Law, we may be required to withhold PRC tax on interest payable to certain of our non-resident investors. In such case, we will, subject to certain exceptions, be required to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. As described under “Description of the Notes – Redemption for Taxation Reasons,” in the event we are required to pay additional amounts as a result of certain changes in or interpretations of tax law, including any change or interpretation or the stating of an official position that 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 be able to redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

The Notes 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 Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the global notes will trade in book-entry form only, and the Notes in definitive registered form, or definitive registered notes, 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 Notes. Payments of principal, interest and other amounts owing on or in respect of the global notes representing the Notes 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 notes representing the Notes and credited by such participants to indirect participants. After payment to the common depository 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, and 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 a holder of Notes under the Indenture.

Unlike the holders of the Notes 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 holders of the Notes. 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.

RISKS RELATING TO THE SUBSIDIARY GUARANTEES, THE JV SUBSIDIARY GUARANTEES AND THE COLLATERAL

Our initial Subsidiary Guarantors do not currently have significant operations, certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees and all Subsidiary Guarantees and JV Subsidiary Guarantees (if any) may be released in the future

We conduct substantially all of our business operations through our PRC subsidiaries, but none of our current PRC subsidiaries and their direct PRC or non-PRC subsidiaries will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. No future subsidiaries that are organized under the laws of PRC or their future PRC or non-PRC subsidiaries will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee at any time in the future. Moreover, the Notes will not be guaranteed by certain other Non-Guarantor Subsidiaries and under the terms of the Indenture, Subsidiary Guarantors may be able to release their Subsidiary Guarantees subject to certain conditions and become Non-Guarantor Subsidiaries. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of the PRC subsidiaries and certain other Non-Guarantor Subsidiaries. See “Description of the Notes-The Subsidiary Guarantees and JV Subsidiary Guarantees.” Moreover, the charge over the shares of the offshore subsidiaries of the Company (the “Collateral”) will not include the capital stock of our existing or future Non-Guarantor Subsidiaries, including our PRC subsidiaries.

The initial Subsidiary Guarantors that will guarantee the Notes do not have significant operations. We cannot assure you that the initial Subsidiary Guarantors or any subsidiaries that may become Subsidiary Guarantors or JV Subsidiary Guarantors in the future will have the funds necessary to satisfy our financial obligations under the Notes if we are unable to do so. See “– Risks Relating to the Notes – We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries.”

Under the terms of the Notes, a Subsidiary Guarantor may be able to release its Subsidiary Guarantee if it sells or issues more than 20% of the Capital Stock of such Subsidiary Guarantor to a third party, as long as the consolidated assets of all Restricted Subsidiaries organized outside the PRC (other than Exempted Subsidiaries) that are not Subsidiary Guarantors or JV Subsidiary Guarantors do not account for more than 25% of our total assets.

In addition, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse JV Subsidiary Guarantee following the sale or issuance to a third party of a non-controlling interest in such subsidiary or its direct or indirect majority shareholders (subject to the satisfaction of certain conditions including a cap on the non-guaranteed portion of the assets of JV Subsidiary Guarantors). Recovery under a JV Subsidiary Guarantee is limited to an amount equal to our proportional interest in the issued share capital of such JV Subsidiary Guarantor multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year end of the Company.

Furthermore, when the 2015 Notes are fully redeemed or repaid, we will be allowed under the terms of the Notes to release all Subsidiary Guarantees or JV Subsidiary Guarantees (if any). In that event, the Notes will not be guaranteed at all.

The Subsidiary Guarantees or JV Subsidiary Guarantees (if any) may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees (if any)

Under bankruptcy laws, fraudulent transfer laws, insolvency or unfair preference or similar laws in the BVI, Hong Kong and other jurisdictions where future Subsidiary Guarantors or JV Subsidiary Guarantors may be established or where insolvency proceedings may be commenced with respect to any such Subsidiary Guarantor or JV Subsidiary Guarantor, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor, if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by, or when it gives, its guarantee:

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;
- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;
- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the laws of the applicable jurisdiction. Generally, however, a guarantor would be considered insolvent at a particular time if it were unable to pay its debts as they fell due or if the sum of its debts was then greater than all of its properties at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities in respect of its existing debts as they became absolute and matured.

In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantor. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder were incurred for less than reasonably equivalent value or fair consideration.

In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors under the Subsidiary Guarantees or JV Subsidiary Guarantees (as the case may be) will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor or JV Subsidiary Guarantor without rendering the guarantee, as it relates to such Subsidiary Guarantor or JV Subsidiary Guarantor, voidable under such applicable insolvency or fraudulent transfer laws. We cannot assure you that such limitation will be effective in preserving the enforceability of any of the Subsidiary Guarantees or JV Subsidiary Guarantees.

If a court voids a Subsidiary Guarantee or JV Subsidiary Guarantee, subordinates such guarantee to other indebtedness of the Subsidiary Guarantor or JV Subsidiary Guarantor (as the case may be), or holds a Subsidiary Guarantee or JV Subsidiary Guarantee unenforceable for any other reason, holders of the Notes would cease to have a claim against that Subsidiary Guarantor or JV Subsidiary Guarantor (as the case may be) based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such Subsidiary Guarantor or JV Subsidiary Guarantor (as the case may be), and would solely be creditors of us and any Subsidiary Guarantors or JV Subsidiary Guarantors (as the case may be) whose guarantees have not been voided or held unenforceable. We cannot assure you that, in such an event, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Notes.

The pledge of certain Collateral may in some circumstances be voidable

The pledge of the Collateral may be voidable as a preference under insolvency or fraudulent transfer or similar laws of Hong Kong, the Cayman Islands and the BVI at any time within six months of the perfection of the pledge or, under some circumstances, within a longer period. Pledges of capital stock of future Subsidiary Guarantors or, where applicable, certain JV Subsidiary Guarantors may also be voidable as a preference under relevant insolvency or fraudulent transfer or similar laws. In addition, the pledge of certain Collateral may be voided based on the analysis set forth under “– The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees.” See also “Description of Other Material Indebtedness – 2015 Notes – Collateral,” “Description of Other Material Indebtedness – 2017 Notes – Collateral” and “Description of Other Material Indebtedness – January 2018 Notes – Collateral.”

If the pledges of the Collateral were to be voided for any reason, holders of the Notes would have only an unsecured claim against us.

The value of the Collateral will likely not be sufficient to satisfy our obligations under the Notes, the 2015 Notes, the 2017 Notes, the January 2018 Notes and other pari passu secured indebtedness

The Collateral will initially consist only of the capital stock of the initial Subsidiary Guarantors (subject to limited exceptions). The Collateral will not consist of the pledge of shares by the Company in Shimao Property Holdings (BVI) Limited or by Shimao Property Holdings (BVI) Limited in Peak Castle Assets Limited. The security interest in respect of certain Collateral may be released upon the disposition of such Collateral and any proceeds from such disposition may be applied, prior to repaying any amounts due under the Notes, to repay other debt or to make investments in properties and assets that will not be pledged as additional Collateral.

The ability of the Trustee, on behalf of the holders of the Notes, to foreclose on the Collateral upon the occurrence of an Event of Default or otherwise, will be subject in certain instances to perfection and priority issues. Although procedures will be undertaken to support the validity and enforceability of the security interests, we cannot assure you that the Trustee or holders of the Notes will be able to enforce the security interest.

The value of the Collateral in the event of a liquidation will depend upon market and economic conditions, the availability of buyers and similar factors. No independent appraisals of any of the Collateral have been prepared by or on behalf of us in connection with this offering of the Notes. Accordingly, we cannot assure you that the proceeds of any sale of the Collateral following an acceleration of the Notes would be sufficient to satisfy, or would not be substantially less than, amounts due and payable on the Notes. By their nature, some or all of the Collateral, in particular, the capital stock of the existing or any future Subsidiary Guarantors or, where applicable, certain future JV Subsidiary Guarantors, may be illiquid and may have no readily ascertainable market value. Likewise, we cannot assure you that the Collateral will be saleable or, if saleable, that there will not be substantial delays in its liquidation.

The Collateral will be shared on a *pari passu* basis by the holders of the Notes, the 2015 Notes, the 2017 Notes, and the January 2018 Notes and any other creditors with respect to Permitted Pari Passu Secured Indebtedness. Accordingly, in the event of a default on the Notes or the other secured indebtedness and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of secured indebtedness. The value of the Collateral securing the Notes, the 2015 Notes, the 2017 Notes, and the January 2018 Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors is unlikely to be sufficient to satisfy the Company's and each of the Subsidiary Guarantor Pledgors, obligations under the Notes, the 2015 Notes, the 2017 Notes, and the January 2018 Notes and the respective Subsidiary Guarantees, and such Collateral and Subsidiary Guarantees may be reduced or diluted under certain circumstances, including the issuance of additional Notes, additional 2015 Notes, additional 2017 Notes, and additional January 2018 Notes and the disposition of assets comprising the Collateral, subject to the terms of the Indenture.

The pledge of certain Collateral may be released under certain circumstances

In the event that a Subsidiary Guarantor is able to release its Subsidiary Guarantee by selling or issuing more than 20% of the Capital Stock of such Subsidiary Guarantor to a third party, because the consolidated assets of all Restricted Subsidiaries organized outside the PRC (other than Exempted Subsidiaries) that are not Subsidiary Guarantors or JV Subsidiary Guarantors do not account for more than 25% of our total assets, we are permitted to release the pledge of the shares granted by and over such Subsidiary Guarantor.

Moreover, in the event the conditions applicable to the replacement of a Subsidiary Guarantee with a JV Subsidiary Guarantee are satisfied, we are permitted to release the pledge of the shares granted by such Subsidiary Guarantor, as well as the pledge of the shares granted by the subsidiaries of such Subsidiary Guarantor. We are only required to deliver a replacement share pledge for the shares that we continue to hold in such JV Subsidiary Guarantor (but not the subsidiaries of such JV Subsidiary Guarantor) following the sale of the equity interests in such Subsidiary Guarantor. As a result, in the event we sell minority equity interests in our Subsidiary Guarantors or otherwise create JV Subsidiary Guarantors in accordance with the terms of the Indenture, the Collateral will be reduced in value and scope, and holders of the Notes would be subject to increased risks.

Furthermore, when the 2015 Notes are fully redeemed or repaid and the only Indebtedness secured by the Collateral is the Indebtedness represented by the 2017 Notes, the January 2018 Notes the Notes and the Subsidiary Guarantees, we will be allowed under the terms of the 2017 Notes, the January 2018 Notes and the Notes to release the Collateral. In that event, the Notes will not be secured at all. If and when the Notes become unsecured obligations, their repayment may be compromised if:

- we enter into bankruptcy, liquidation, reorganization or other winding-up proceedings;
- there is a default in payment under our future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of our indebtedness.

If any of these events occur, our assets may not be sufficient to pay amounts due under the Notes.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering, will be approximately CNY1,188.0 million, which we plan to use outside the PRC to refinance our existing indebtedness and for business development and other general corporate purposes.

We may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of the proceeds. Pending application of the net proceeds of this offering, we intend to invest the net proceeds in Temporary Cash Investments (as defined under “Description of the Notes – Definitions”).

EXCHANGE RATE INFORMATION

China

The 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. 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 widened to 1.0% on April 16, 2012 and further revised to 2.0% on March 17, 2014. From July 21, 2005 to June 30, 2014, the value of the Renminbi appreciated by approximately 30% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. PBOC authorized the China Foreign Exchange Trading Centre, effective since January 4, 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi on each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over-the-counter exchange rate for the business day. On August 11, 2015, the PBOC announced plans to improve the central parity rate of the RMB against the U.S. dollar by authorizing market-makers to provide parity to the China Foreign Exchange Trading Center operated by the PBOC with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign currencies as well as changes in exchange rates of major international currencies. On the same day, the central parity rate of the RMB against the U.S. dollar depreciated by nearly 2.0% as compared to August 10, 2015, and further depreciated by nearly 1.6% on August 12, 2015 as compared to August 11, 2015. The International Monetary Fund announced on September 30, 2016 that the Renminbi joins its Special Drawing Rights currency basket. Since October 2016, the RMB against the U.S. dollar continued to depreciate at an increasing rate. Such change and additional future changes may increase the volatility in the trading value of the Renminbi against foreign currencies.

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:

Period	Period end	Exchange Rate		
		Average ⁽¹⁾	High	Low
		<i>(RMB per US\$1.00)</i>		
2013	6.0537	6.1478	6.2438	6.0537
2014	6.2046	6.1619	6.2591	6.0402
2015	6.4778	6.2869	6.4778	6.2046
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7564	6.9575	6.4773
December	6.5063	6.5932	6.6210	6.5063
2018				
January	6.2841	6.4233	6.5263	6.2841
February	6.3280	6.3183	6.3471	6.2649
March	6.2726	6.3174	6.3565	6.2685
April	6.3325	6.2963	6.3340	6.2655
May	6.4096	6.3701	6.4175	6.3325
June (through June 15)	6.4379	6.4031	6.4379	6.3850

Source: Federal Reserve H.10 Statistical Release

Note:

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

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 the Hong Kong Special Administrative Region of the People's Republic of China (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:

Period	Period end	Exchange Rate		
		Average⁽¹⁾	High	Low
		<i>(HK\$ per US\$1.00)</i>		
2014	7.7531	7.7544	7.7669	7.7495
2015	7.7507	7.7519	7.7686	7.7495
2016	7.7534	7.7620	7.8270	7.7505
2017	7.8128	7.7926	7.8267	7.7540
December	7.8128	7.8128	7.8228	7.8050
2018				
January	7.8210	7.8190	7.8230	7.8161
February	7.8267	7.8222	7.8267	7.8183
March	7.8484	7.8413	7.8416	7.8275
April	7.8479	7.8482	7.8499	7.8432
May	7.8439	7.8487	7.8499	7.8439
June (through June 15)	7.8492	7.8468	7.8492	7.8454

Source: Federal Reserve H.10 Statistical Release

Note:

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

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization and indebtedness as of December 31, 2017 on an actual basis and on an adjusted basis after giving effect to the issuance of the 2017 Notes, the January 2018 Notes, the Original Notes and the issuance of the Further Notes in this offering, in each case, after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering. The following table should be read in conjunction with the selected consolidated financial information and related notes included in this offering memorandum.

	As of December 31, 2017			
	Actual		As adjusted	
	(RMB)	(US\$)	(RMB)	(US\$)
	(Unaudited)			
	<i>(in thousands)</i>			
Cash and cash equivalents (excluding restricted cash)⁽¹⁾	28,537,441	4,386,124	33,883,060	5,207,731
Current borrowings:⁽²⁾⁽³⁾⁽⁴⁾				
Bank borrowings – secured	5,000	768	5,000	768
Bank borrowings – unsecured	7,153,587	1,099,486	7,153,587	1,099,486
Borrowings from other financial institutions – secured	800,000	122,958	800,000	122,958
Borrowings from other financial institutions – unsecured	751,000	115,427	751,000	115,427
Current portion of senior notes	3,899,387	599,324	3,899,387	599,324
Current portion of medium-term notes	3,000,000	461,092	3,000,000	461,092
Current portion of domestic corporate bonds	49,854	7,662	49,854	7,662
Current portion of long-term borrowings	2,536,392	389,386	2,536,392	389,386
Total current borrowings	18,195,220	2,796,553	18,195,220	2,796,553
Non-current borrowings:⁽³⁾⁽⁴⁾⁽⁵⁾				
Bank borrowings – secured ⁽⁶⁾	12,298,596	1,890,260	12,298,596	1,890,260
Bank borrowings – unsecured ⁽⁶⁾	10,302,801	1,583,512	10,302,801	1,583,512
Borrowings from other financial institutions – secured ⁽⁶⁾	9,452,000	1,452,746	9,452,000	1,452,746
Borrowings from other financial institutions – unsecured ⁽⁶⁾	1,274,152	195,834	1,274,152	195,834
Senior notes – secured ⁽⁷⁾	17,536,872	2,695,368	17,536,872	2,695,368
Medium-term notes – unsecured ⁽⁸⁾	4,300,000	660,898	4,300,000	660,898
Long-term bonds ⁽⁹⁾	14,864,781	2,284,675	14,864,781	2,284,675
Domestic corporate bonds ⁽¹⁰⁾	8,765,903	1,347,295	8,765,903	1,347,295
January 2018 Notes ⁽¹¹⁾	–	–	3,220,619	495,000
Original Notes ⁽¹²⁾	–	–	937,000	144,014
Further Notes to be issued ⁽¹³⁾	–	–	1,188,000	182,592
Less: Amounts due within one year	9,485,633	1,457,915	9,485,633	1,457,915
Total non-current borrowings	69,309,472	10,652,673	74,655,091	11,474,277
Share capital	348,864	53,619	348,864	53,619
Reserves	57,285,819	8,804,669	57,285,819	8,804,669
Total equity attributable to our equity holders of the Company ⁽¹⁴⁾	57,634,683	8,858,288	57,634,683	8,858,288
Total capitalization⁽¹⁵⁾	126,944,155	19,510,961	132,289,774	20,332,566

Notes:

- (1) As of December 31, 2017, cash and cash equivalents excluded restricted cash of RMB4,469.3 million (US\$686.9 million). Restricted cash consists principally of guarantee deposits for the benefit of mortgage loan facilities granted by banks to the purchasers of properties and bank deposits pledged as collateral for the borrowings.
- (2) Our current debt includes the current portion of long-term borrowings.
- (3) As of December 31, 2017, our PRC subsidiaries had incurred current and non-current borrowings in the amount of approximately RMB37,755.6 million (US\$5,802.9 million).
- (4) Our debt does not include any accrual for capital commitments or contingent liabilities. As of December 31, 2017, our consolidated capital commitments were RMB50,427.5 million (US\$7,750.6 million) and our contingent liabilities, all of which were in the form of guarantees that we had provided to our customers in relation to their purchase of our properties, amounted to approximately RMB11,799.1 million (US\$1,813.5 million), and guarantees that we have provided for the borrowings, amounted to RMB6,958.8 million (US\$1,069.5 million).
- (5) Non-current debt excludes current portion of long-term borrowings.
- (6) Subsequent to December 31, 2017, we have from time to time entered into additional loan agreements to finance our property developments or for general corporate purposes in the ordinary course of business. As of April 30, 2018, we had bank borrowings of approximately RMB101,734.6 million (US\$15,636.3 million). See “Description of Other Material Indebtedness.” These changes in our borrowings and any repayments after December 31, 2017 have not been reflected in this capitalization table.
- (7) We issued the 2015 Notes and the 2017 Notes. See “Description of Other Material Indebtedness” for details. These senior notes are senior obligations guaranteed by certain offshore subsidiaries and secured by a pledge of the shares of certain offshore subsidiaries.

We may at our option redeem these senior notes, in whole or in part, by certain dates in accordance with the terms of these notes.

- (8) On March 10, 2015, Shanghai Shimao issued medium-term notes in an aggregate principal of RMB1,500,000,000 at a fixed interest rate of 6.08% due on March 10, 2018. On July 10, 2015, Shanghai Shimao issued medium-term notes in an aggregate principal of RMB1,500,000,000 at a fixed interest rate of 5.35% due on July 10, 2018.

On January 6, 2017, Shanghai Shimao issued the first phase of medium-term notes with total principal of RMB1,300,000,000 at a fixed interest rate of 4.50% due on January 5, 2020.

- (9) On September 18, 2015, Shanghai Shimao Jianshe Co., Ltd. (“Shimao Jianshe”) issued long-term bonds in an aggregate principal amount of RMB6,000,000,000 at a fixed interest rate of 3.90% per annum, which will mature on September 18, 2020. On October 15, 2015, Shimao Jianshe issued long-term bonds in an aggregate principal of RMB1,400,000,000 at a fixed interest rate of 4.15% due on October 15, 2022. On March 24, 2016, Shanghai Shimao issued long-term bonds in an aggregate principal amount of RMB2,000,000,000 at a fixed interest rate of 3.29% per annum. On July 12, 2016, Shanghai Shimao issued long-term bonds in an aggregate principal amount of RMB1,500,000,000 at a fixed interest rate of 3.38% per annum. On July 11, 2017, Shanghai Shimao issued the first phase of long-term bonds with aggregate principal amount of RMB2,500,000,000 at a fixed interest rate of 4.95% due on July 12, 2020. On September 20, 2017, Shanghai Shimao issued the second phase of long-term bonds with aggregate principal amount of RMB1,000,000,000 at a fixed interest rate of 5.15% due on September 21, 2020. On October 17, 2017, Shanghai Shimao issued the third phase of long-term bonds with aggregate principal amount of RMB500,000,000 at a fixed interest rate of 5.19% due on October 18, 2020.
- (10) On January 14, 2016, August 3, 2016, September 22, 2016, September 22, 2016 and September 22, 2016, we issued domestic corporate bonds with total principal of RMB4,000,000,000, RMB540,000,000, RMB1,000,000,000, RMB3,000,000,000 and RMB1,200,000,000 at a fixed interest rate of 4.8%, 4.3%, 3.7%, 3.9% and 4.1% due on January 14, 2021, August 3, 2021, September 22, 2018, September 22, 2019 and September 22, 2022, respectively.

On September 18, 2017, we redeemed domestic corporate bonds with a total principal of RMB950,000,000 at a fixed interest rate of 3.7%, which was originally due on September 22, 2018. The total redemption price paid was RMB985,150,000 including the principal amount of RMB950,000,000 plus accrued and unpaid interest of RMB35,150,000 to the redemption date.
- (11) On January 30, 2018, we issued the January 2018 Notes in an aggregate principal amount of US\$500,000,000. See “Description of Other Material Indebtedness – January 2018 Notes.”
- (12) On March 8, 2018, we issued the Original Notes in an aggregate principal amount of CNY950,000,000.

- (13) In accordance with HKFRS, the Further Notes should be recorded at their fair value upon initial recognition, which may be substantially different from the aggregate principal amount of the Notes. For illustrative purposes only, the Notes have been recorded at their aggregate principal amount, after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering, in the “As adjusted” column of the table above.
- (14) On August 29, 2017, the Board declared an interim dividend of HKD40 cents per ordinary share for the six months ended June 30, 2017.
- (15) Total capitalization equals total non-current debt plus total equity attributable to our equity holders.

Since December 31, 2017, we have incurred additional indebtedness and redeemed some of our existing indebtedness. See “Business – Recent Developments.” In addition, we have incurred, and will continue to incur, indebtedness from time to time for general corporate purposes, including but not limited to refinancing of existing indebtedness and funding our operations in the ordinary course of business. Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our capitalization since December 31, 2017. See “Description of Other Material Indebtedness.”

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary financial and other data. The summary consolidated income statement data for the years ended December 31, 2015, 2016 and 2017 and the summary consolidated balance sheet data as of December 31, 2015, 2016 and 2017 set forth below (except for EBITDA data) have been derived from our audited consolidated financial statements for the years ended and as of December 31, 2016 and 2017, as audited by PricewaterhouseCoopers, our independent certified public accountants. Our financial statements have been prepared and presented in accordance with HKFRS, which differ in certain respects from U.S. GAAP and 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 offering memorandum.

Summary Consolidated Income Statement and Other Financial Data

	For the year ended December 31,			
	2015	2016	2017	2017
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	<i>(US\$)</i>
	Unaudited			
	<i>(in thousands, except percentages)</i>			
Revenue	57,732,974	59,286,161	70,425,874	10,824,259
Costs of sales	<u>(41,284,575)</u>	<u>(42,937,532)</u>	<u>(48,996,361)</u>	<u>(7,530,603)</u>
Gross profit	16,448,399	16,348,629	21,429,513	3,293,656
Fair value gains on investment properties				
– net	2,776,694	1,996,673	679,484	104,435
Other income/other gains – net	1,570,998	838,785	545,095	83,780
Selling and marketing costs	(1,615,275)	(1,352,643)	(1,461,804)	(224,675)
Administrative expenses	(3,278,396)	(2,742,720)	(2,989,871)	(459,535)
Other operating expenses	<u>(288,194)</u>	<u>(268,509)</u>	<u>(523,702)</u>	<u>(80,492)</u>
Operating profit	15,614,226	14,820,215	17,678,715	2,717,169
Finance (costs)/				
income – net	(1,408,648)	(1,175,946)	1,328,414	204,173
Share of results of:				
– Associated companies	108,684	37,584	167,593	25,759
– Joint ventures	<u>(591,853)</u>	<u>(485,975)</u>	<u>(482,969)</u>	<u>(74,231)</u>
	<u>(483,169)</u>	<u>(448,391)</u>	<u>(315,376)</u>	<u>(48,472)</u>
Profit before income tax	13,722,409	13,195,878	18,691,753	2,872,870
Income tax expense	<u>(5,563,671)</u>	<u>(5,685,493)</u>	<u>(8,121,060)</u>	<u>(1,248,184)</u>
Profit for the year	<u>8,158,738</u>	<u>7,510,385</u>	<u>10,570,693</u>	<u>1,624,686</u>
Profit for the year attributable to:				
equity holders of the Company	6,115,784	5,171,855	7,840,494	1,205,062
Non-controlling interests	<u>2,042,954</u>	<u>2,338,530</u>	<u>2,730,199</u>	<u>419,624</u>
Profit for the year	<u>8,158,738</u>	<u>7,510,385</u>	<u>10,570,693</u>	<u>1,624,686</u>
Other Financial Data (Unaudited)				
EBITDA ⁽¹⁾	15,387,069	16,220,993	21,416,529	3,291,660
EBITDA margin ⁽²⁾	26.7%	27.4%	30.4%	30.4%

Notes:

- (1) EBITDA for any period consists of operating profit before fair value gains or losses on the investment properties and certain other special gains or expenses plus depreciation, amortization expenses and capitalized interest under cost of sales. EBITDA is not a standard measure under HKFRS. 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, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow 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 Indenture governing the Notes. Interest expense excludes amounts capitalized. See "Description of the Notes-Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.

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

	For the year ended December 31,			
	2015	2016	2017	2017
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	<i>(US\$)</i>
	<i>(in thousands)</i>			
Operating profit for the year	15,614,226	14,820,215	17,678,715	2,717,169
Adjustments:				
Add:				
Capitalized interest recognized in cost of sales	3,450,500	3,606,000	3,909,953	600,949
Depreciation of property and equipment	430,066	430,149	580,353	89,199
Amortization of land use rights	73,963	84,180	84,991	13,063
Impairment of goodwill	–	26	–	–
Less:				
Fair value gain on investment properties – net	2,776,694	1,996,673	679,484	104,435
Gains on disposal of subsidiaries with loss of control	991,456	476,406	59,451	9,137
Gain/(loss) on derivative financial instruments	43,393	140,478	(86,979)	(13,368)
Gain on disposal of investment in structured products issued by banks and other financial institution	–	93,523	90,848	13,963
Gain on acquisition of a subsidiary	–	12,497	–	–
Gains on acquisition of equity interests in associated companies, joint ventures and obtaining control	322,116	–	34,183	5,254
Gains on disposal/closure of associated companies	40,904	–	–	–
Gains on deemed disposal of subsidiaries with loss of control	7,123	–	60,496	9,298

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

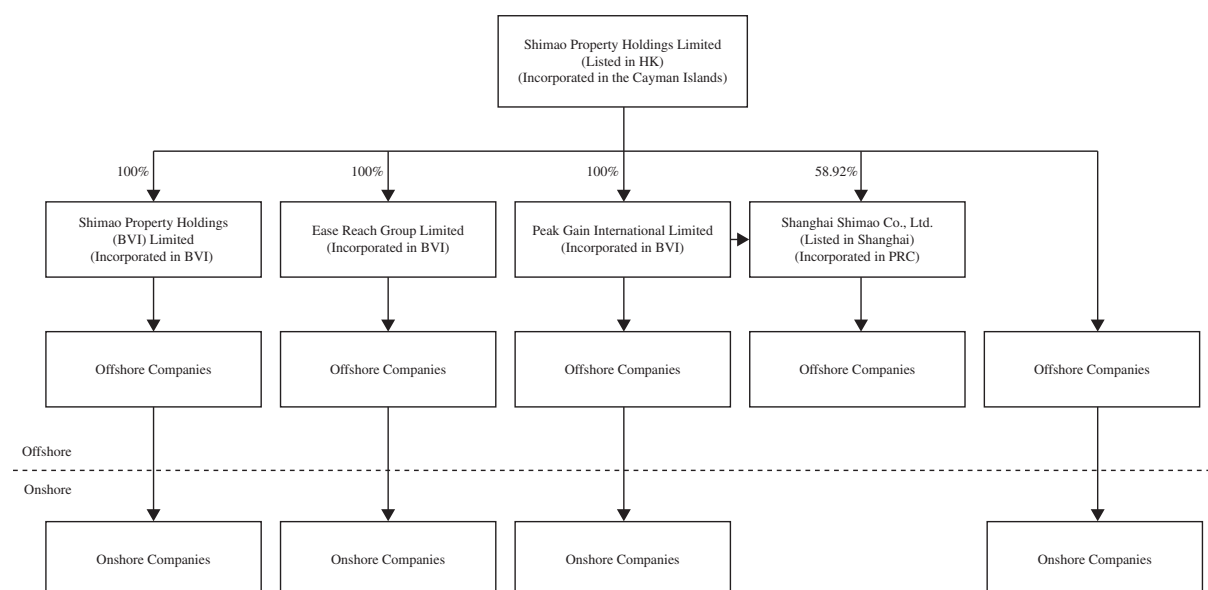
Selected Consolidated Balance Sheet Data

	As of December 31,			
	2015	2016	2017	
	(RMB)	(RMB)	(RMB)	(US\$)
	Unaudited			
	(in thousands)			
Non-current assets				
Property and equipment	11,571,944	13,493,658	13,513,914	2,077,051
Investment properties	30,025,297	32,270,913	34,036,147	5,231,260
Land use rights	7,921,887	8,218,571	8,176,521	1,256,708
Intangible assets	1,840,684	1,840,658	1,840,658	282,904
Associated companies	898,275	912,465	1,345,018	206,725
Available-for-sale financial assets	1,204,470	941,256	1,068,775	164,268
Joint ventures	9,784,898	9,183,425	13,601,709	2,090,544
Amounts due from related parties	2,774,694	1,923,231	1,471,478	226,162
Deferred income tax assets	1,983,977	2,298,849	2,523,663	387,880
Other non-current assets	1,311,526	1,629,639	7,449,318	1,144,939
	<u>69,317,652</u>	<u>72,712,665</u>	<u>85,027,201</u>	<u>13,068,441</u>
Current assets				
Inventories	118,867,526	120,342,997	133,554,704	20,526,983
Biological assets	–	298,133	318,657	48,977
Properties under development	100,727,237	101,568,030	114,888,153	17,657,986
Completed properties held for sale	18,140,289	18,476,834	18,347,894	2,820,020
Available-for-sale financial assets	–	3,000,000	–	–
Trade and other receivables and prepayments	14,786,878	20,256,536	15,583,786	2,395,184
Prepayment for acquisition of land use rights	11,133,906	17,950,915	21,605,517	3,320,707
Prepaid income taxes	2,115,462	2,691,546	2,743,827	421,718
Amounts due from related parties	1,581,929	2,623,314	16,035,676	2,464,638
Derivative financial instruments	41,782	90,199	1,190	183
Restricted cash	3,817,713	2,875,658	4,469,331	686,924
Cash and cash equivalents	22,591,843	19,359,175	28,537,441	4,386,124
	<u>174,937,039</u>	<u>189,190,340</u>	<u>222,531,472</u>	<u>34,202,461</u>
Current liabilities				
Trade and other payables	25,962,991	27,307,614	33,524,265	5,152,585
Advanced proceeds received	30,766,515	31,903,265	34,117,188	5,243,716
Income tax payable	12,460,061	13,682,645	15,641,375	2,404,035
Borrowings	16,953,596	17,755,309	18,195,220	2,796,554
Amounts due to related parties	24,447,996	27,788,670	33,868,519	5,205,496
Finance lease liabilities	186,620	171,420	130,560	20,067
Deferred income	2,010	–	–	–
	<u>110,779,789</u>	<u>118,608,923</u>	<u>135,477,127</u>	<u>20,822,453</u>
Net current assets	<u>64,157,250</u>	<u>70,581,417</u>	<u>87,054,354</u>	<u>13,380,008</u>
Total assets less current liabilities	<u>133,474,902</u>	<u>143,294,082</u>	<u>172,081,546</u>	<u>26,448,449</u>

	As of December 31,			
	2015	2016	2017	
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	<i>(US\$)</i>
				Unaudited
		<i>(in thousands)</i>		
Non-current liabilities				
Borrowings	52,867,396	49,188,203	69,309,472	10,652,671
Deferred income tax liabilities	5,471,821	5,666,533	6,025,277	926,068
Finance lease liabilities	386,365	222,353	–	–
	<u>58,725,582</u>	<u>55,077,089</u>	<u>75,334,749</u>	<u>11,578,739</u>
Equity				
Share capital	356,275	348,864	348,864	53,619
Reserves	49,805,385	52,107,187	57,285,819	8,804,669
	50,161,660	52,456,051	57,634,683	8,858,288
Non-controlling interests	24,587,660	35,760,942	39,112,114	6,011,422
	<u>74,749,320</u>	<u>88,216,993</u>	<u>96,746,797</u>	<u>14,869,710</u>

CORPORATE STRUCTURE

The following chart illustrates our simplified corporate structure as of the date of this offering memorandum:



Notes:

- (1) The table below sets forth details of the initial Subsidiary Guarantors (companies with “*” are initial Subsidiary Guarantor Pledgors):

Name of Company	Place of Incorporation
Able Power Enterprises Limited*	British Virgin Islands
Advance Assets Holdings Limited	British Virgin Islands
Best Empire Investments Limited*	British Virgin Islands
Best Whole Investments Limited	British Virgin Islands
Brilliant Architectural and Construction Professional Consultancy Limited	Hong Kong
Charm Field Group Limited	Hong Kong
Charm Mix Group Limited*	British Virgin Islands
Charm Sum Enterprises Limited*	British Virgin Islands
Clear Rise Investments Limited	Hong Kong
Daily Right Holdings Limited	Hong Kong
Divine Grace International Limited	Hong Kong
Double Achieve Assets Limited*	British Virgin Islands
East Light Group Limited*	British Virgin Islands
Easy Grand Group Limited	British Virgin Islands
Ease Reach Group Limited 宜達利集團有限公司*	British Virgin Islands
Elegant Dragon Investments Limited	Hong Kong
Ever Dean Limited	Hong Kong
Everactive Properties Limited*	British Virgin Islands
Excel China Group Limited	Hong Kong
Excel Grand Group Limited	Hong Kong
Faith Joy Investments Limited	Hong Kong
Fast Intellect Investments Limited*	British Virgin Islands
Favor Luck Holdings Limited*	British Virgin Islands
Favor Rich International Limited*	British Virgin Islands
Fine Sharp Investments Limited*	British Virgin Islands
Fine Tune Investments Limited	Hong Kong
Fine Union Group Limited*	British Virgin Islands

Name of Company	Place of Incorporation
Full Range International Limited	Hong Kong
Gain Come Group Limited*	British Virgin Islands
Grace Rise Investments Limited	Hong Kong
Happy Light Group Limited	Hong Kong
Highsharp International Limited	British Virgin Islands
Intellect Joy Investments Limited*	British Virgin Islands
Jumbowill Holdings Limited	British Virgin Islands
Kay On Holdings Limited	Hong Kong
Keen Villa Limited*	British Virgin Islands
Keenrich Holdings Limited	British Virgin Islands
Lead Win Enterprises Limited*	British Virgin Islands
Magic Dynasty Investments Limited	British Virgin Islands
Marvel View Holdings Limited	Hong Kong
Max Start International Limited*	British Virgin Islands
Mega Universe Limited*	British Virgin Islands
Modern Professional Architectural Design Limited	Hong Kong
Moral Trend Limited	Hong Kong
More Wealth Group Limited	British Virgin Islands
Move Max Investments Limited*	British Virgin Islands
Multivision Profits Limited	British Virgin Islands
New Fine International Limited*	British Virgin Islands
New Fit Investments Limited*	British Virgin Islands
New Full Holdings Limited	Hong Kong
New Sincere Investments Limited	Hong Kong
Nice Excel Investments Limited	Hong Kong
Orient Rise Investments Limited	Hong Kong
Peak Castle Assets Limited*	British Virgin Islands
Peak Gain International Limited 峰盈國際有限公司*	British Virgin Islands
Perfect East Investments Limited*	British Virgin Islands
Pine Sun Limited	Hong Kong
Plenty Up Investments Limited*	British Virgin Islands
Precise Choice Investments Limited	British Virgin Islands
Prime Master Holdings Limited*	British Virgin Islands
Profit Eagle Enterprises Limited	British Virgin Islands
Profit Forest Investments Limited	Hong Kong
Proteam Investments Limited	Hong Kong
Proven Earn Holdings Limited*	British Virgin Islands
Real Reach Investments Limited	Hong Kong
Real Fine International Limited	Hong Kong
Rich Excel Investments Limited	Hong Kong
Rich First Group Limited	Hong Kong
Rich Noble Group Limited	Hong Kong
Rise Max International Limited	Hong Kong
Roadstead Holdings Limited*	British Virgin Islands
Rocket High Group Limited*	British Virgin Islands
Royal Well International Limited	Hong Kong
See Bright Enterprises Limited*	British Virgin Islands
Shimao Holdings Company Limited	Hong Kong
Shimao Management (Overseas) Limited	British Virgin Islands
Shimao Property Holdings (BVI) Limited*	British Virgin Islands
Significant Asset Group Limited	British Virgin Islands
Sino Run Investments Limited*	British Virgin Islands
Smart Sea Group Limited*	British Virgin Islands
Super Good Group Limited*	British Virgin Islands
Surennew Group Limited*	British Virgin Islands
Top Roof International Limited*	British Virgin Islands
Topleigh Holdings Limited*	British Virgin Islands
Topwise Limited	Hong Kong
Turbo Up Holdings Limited*	British Virgin Islands
Upper Aim International Limited*	British Virgin Islands
Uptime Investments Limited	Hong Kong

Name of Company	Place of Incorporation
Urban Origin International Limited	Hong Kong
Vicking International Ltd.*	British Virgin Islands
Whole Grace Enterprises Limited*	British Virgin Islands
Wickfair Investments Limited*	British Virgin Islands
Widely Known Limited	British Virgin Islands
Wise Atlantic Holdings Limited	British Virgin Islands
Wise Plenty Investments Limited*	British Virgin Islands
World Known International Limited*	British Virgin Islands
Year Grant Investments Limited*	British Virgin Islands
All Modern Investments Limited*	British Virgin Islands
Better Dragon Holdings Limited	British Virgin Islands
Dokino International Limited*	British Virgin Islands
Eagle House Enterprises Limited*	British Virgin Islands
Exceed New Limited*	British Virgin Islands
Genius Astor Limited	British Virgin Islands
Glorify Property Investments Limited*	British Virgin Islands
Goldprime Holdings Limited*	British Virgin Islands
Greater Tiger International Limited*	British Virgin Islands
Lilo Winner Enterprises Limited	British Virgin Islands
Marble Mountain Group Limited*	British Virgin Islands
Marvel Joyday International Limited*	British Virgin Islands
Max Act Investments Limited*	British Virgin Islands
Mega Make Investments Limited*	British Virgin Islands
Money Raider Enterprises Limited*	British Virgin Islands
Penders Enterprises Limited*	British Virgin Islands
Profun Group Limited*	British Virgin Islands
Rich Town Group Limited*	British Virgin Islands
Richly Holdings Limited*	British Virgin Islands
Running Leopard International Limited*	British Virgin Islands
Running Lion Group Limited*	British Virgin Islands
Running Panda Limited*	British Virgin Islands
Running Tiger Investments Limited	British Virgin Islands
Smooth Wealth International Limited 順財國際有限公司	British Virgin Islands
Talent Investor Investments Limited*	British Virgin Islands
Talenta Group Limited*	British Virgin Islands
Terimay Enterprises Limited*	British Virgin Islands
Tiger Go Group Limited*	British Virgin Islands
Unique Choice Investments Limited*	British Virgin Islands
Xinwin International Limited*	British Virgin Islands
Year Joy Holdings Limited*	British Virgin Islands
All Cosmos Limited	Hong Kong
All Vision Limited	Hong Kong
Best Bloom Holdings Limited	Hong Kong
Billion Pier Investments Limited	Hong Kong
Bonus Boom Limited	Hong Kong
Bonus Goal Investments Limited	Hong Kong
Capital Brilliant Limited	Hong Kong
Delta Wealth Limited	Hong Kong
Ever Whole Investments Limited	Hong Kong
Excel Mode Investments Limited	Hong Kong
Focus High Limited	Hong Kong
Full Start Investments Limited	Hong Kong
Future Right Limited	Hong Kong
Goal Chaser Limited	Hong Kong
Global Square Investments Limited	Hong Kong
Goodie Chance Limited	Hong Kong
Joy Line Holdings Limited	Hong Kong
Large Merit Group Limited	Hong Kong
Lion Kingdom Investments Limited	Hong Kong
Lion Land Investments Limited	Hong Kong
Mount New Limited	Hong Kong

Name of Company	Place of Incorporation
Port Media Limited	Hong Kong
Power One Holdings Limited	Hong Kong
S Hotels Intellectual Property Limited	Hong Kong
S Hotels International Management Company Limited	Hong Kong
Sino Future Holdings Limited	Hong Kong
Start Right Limited	Hong Kong
Swift Time Limited	Hong Kong
Time Noble Limited	Hong Kong
Trade Sino Investments Limited	Hong Kong
True Sky Holdings Limited	Hong Kong
Upright Class Investments Limited	Hong Kong
Vast Gold Group Limited	Hong Kong
Whole Great Investments Limited	Hong Kong
Max Champion Holdings Limited*	British Virgin Islands
Precise Future Limited	Hong Kong
Shanghai Shimao Investment Management and Consultancy (HK) Limited*	Hong Kong
Shanghai Shimao International Plaza (HK) Limited	Hong Kong
Shimao Hong Kong Property Investment Management and Consultancy Limited	Hong Kong
Shimao Hong Kong Construction Material Trading Limited	Hong Kong
Regent Plaza Development Limited	Hong Kong
Shimao Travel Limited 世茂旅遊有限公司*	British Virgin Islands
True Excel Limited	British Virgin Islands
Pure Gains Limited	British Virgin Islands
Star Achieve Limited	British Virgin Islands
Action Dragon Investments Limited	British Virgin Islands
World Rich Group Limited*	British Virgin Islands
Lead Bright Investments Limited	Hong Kong
Ho Yeung Group Limited 浩洋集團有限公司*	British Virgin Islands
Magical Year Limited*	British Virgin Islands
Ultimate Eagle Limited*	British Virgin Islands
Accomplish Fortune Limited	Hong Kong
Far Flourish Limited	Hong Kong
Victor Shiny Limited	Hong Kong

(2) The table below sets forth details of the initial Unrestricted Subsidiary:

Company	Place of Incorporation
Shanghai Shimao Riviera (Hong Kong) Limited	Hong Kong

(3) The table below sets forth details of our major PRC subsidiaries:

#	Chinese Name	English Name	Effective Shareholding
1	武漢世茂錦繡長江房地產開發有限公司	Wuhan Shimao Splendid River Real Estate Development Co., Ltd.	100.00%
2	上海世茂建設有限公司	Shanghai Shimao Jianshe Co., Ltd.	100.00%
3	上海世茂股份有限公司	Shanghai Shimao Co., Ltd.	58.92%
4	上海世茂新體験置業有限公司	Shanghai Shimao Wonderland Real Estate Co., Ltd.	58.92%
5	徐州世茂新城房地產開發有限公司	Xuzhou Shimao New City Real Estate Development Co., Ltd.	100.00%
6	常州世茂房地產有限公司	Changzhou Shimao Real Estate Co., Ltd.	100.00%
7	福州世茂新城房地產開發有限公司	Fuzhou Shimao New City Real Estate Development Co., Ltd.	100.00%
8	福州世茂實業有限公司	Fuzhou Shimao Property Co., Ltd.	100.00%
9	青島世茂新城房地產開發有限公司	Qingdao Shimao New City Property Development Co., Ltd.	100.00%
10	蘇州世茂置業有限公司	Suzhou Shimao Property Co., Ltd.	100.00%

#	Chinese Name	English Name	Effective Shareholding
11	上海世源建材貿易有限公司	Shanghai Shine Construction Materials Trading Co., Ltd.	100.00%
12	張家港世茂房地產開發有限公司	Zhangjiagang Shimao Real Estate Development Co., Ltd.	51.00%
13	廈門信誠建築裝潢有限公司	Xiamen Xincheng Building Decoration Co., Ltd.	100.00%
14	上海世盈投資管理有限公司	Shanghai Shiyong Investment Management Co., Ltd.	100.00%
15	南京世茂房地產開發有限公司	Nanjing Shimao Real Estate Development Co., Ltd.	79.46%
16	福建世茂投資發展有限公司	Fujian Shimao Investment and Development Co., Ltd.	79.46%
17	福建世茂新里程投資發展有限公司	Fujian Shimao New Miles Investment Development Co., Ltd.	49.05%
18	杭州世茂嘉年華置業有限公司	Hangzhou Shimao Carnival Property Co., Ltd.	100.00%
19	蘇州世茂新發展房地產開發有限公司	Suzhou Shimao New Development Real Estate Co., Ltd.	51.00%
20	山東世盈置業有限公司	Shandong Shiyong Property Co., Ltd.	50.82%
21	廈門世茂新紀元置業有限公司	Xiamen Shimao New Era Property Co., Ltd.	51.00%
22	南昌世茂新紀元置業有限公司	Nanchang Shimao New Era Property Co., Ltd.	100.00%
23	大廠回族自治縣中基太業房地產開發有限公司	Dachang Hui Autonomous County Real Estate Development Co., Ltd.	65.00%
24	上海容承企業管理有限公司	Shanghai Rongcheng Enterprises Management Co., Ltd.	100.00%
25	重慶浚亮房地產開發有限公司	Chongqing Junliang Real Estate Development Co., Ltd.	100.00%
26	南京世招荃晟置業有限公司	Nanjing Shizhao Quansheng Property Co., Ltd.	51.00%
27	南寧世茂新紀元房地產開發有限公司	Nanning Shimao New Era Real Estate Development Co., Ltd.	100.00%
28	南京海峽城開發建設有限公司	Nanjing Straits City Development Construction Co., Ltd.	100.00%
29	平潭海峽如意城開發建設有限公司	Pingtang Straits Ruyi City Development Construction Co., Ltd.	100.00%
30	南京世茂新發展置業有限公司	Nanjing Shimao New Development Property Co., Ltd.	55.04%
31	南京世茂新領航置業有限公司	Nanjing Shimao New Pioneer Property Co., Ltd.	56.80%
32	上海世茂佘山匯盈置業有限公司	Shanghai Shimao Sheshan Huiying Property Co., Ltd.	50.00%
33	銀川世茂房地產開發有限公司	Yinchuan Shimao Real Estate Development Co., Ltd.	100.00%
34	成都世茂新城房地產開發有限公司	Chengdu Shimao New City Real Estate Development Co., Ltd.	100.00%
35	前海世茂發展(深圳)有限公司	Qianhai Shimao Development (Shenzhen) Co., Ltd.	79.05%
36	天津中新生態城世茂智合投資有限公司	Tianjin Sino-Singapore Eco-City Shimao Zhihe Investment Co., Ltd.	75.00%
37	福州世茂新領域置業有限公司	Fuzhou Shimao New Domain Property Co., Ltd.	100.00%
38	濟南世茂置業有限公司	Jinan Shimao Property Co., Ltd.	58.92%
39	北京茂悅盛欣企業管理有限公司	Beijing Maoyue Shengxin Enterprises Management Co., Ltd.	58.92%
40	青島世茂濱海置業有限公司	Qingdao Shimao Binhai Property Co., Ltd.	58.92%
41	濟南世茂天城置業有限公司	Jinan Shimao Sky City Property Co., Ltd.	58.92%
42	杭州世茂瑞盈置業有限公司	Hangzhou Shimao Ruiying Property Co., Ltd.	58.92%

#	Chinese Name	English Name	Effective Shareholding
43	牡丹江世誠建材貿易有限公司	Mudanjiang Shicheng Construction Materials Trading Co., Ltd.	100.00%
44	牡丹江世融建材貿易有限公司	Mudanjiang Shirong Construction Materials Trading Co., Ltd.	100.00%
45	上海世茂翊信置業有限公司	Shanghai Shimao Yixin Property Co., Ltd.	51.00%
46	世茂天成物業服務集團有限公司	Shimao Tiancheng Property Services Group Co., Ltd.	100.00%
47	合肥世茂房地產開發有限公司	Hefei Shimao Real Estate Development Co., Ltd.	51.00%
48	上海磐宛企業管理有限公司	Shanghai Panwan Enterprises Management Co., Ltd.	58.92%
49	福州世茂匯盈置業有限公司	Fuzhou Shimao Huiying Property Co., Ltd.	51.11%
50	北京富華鉅榮房地產開發有限公司	Beijing Fuhua Borong Real Estate Development Co., Ltd.	50.00%
51	北京富華烏蘭房地產開發有限公司	Beijing Fuhua Wulan Real Estate Development Co., Ltd.	50.00%
52	北京富華長城房地產開發有限公司	Beijing Fuhua Great Wall Real Estate Development Co., Ltd.	50.00%
53	上海世堃貿易有限公司	Shanghai Shikun Trading Co., Ltd.	58.92%
54	牡丹江茂源貿易有限公司	Mudanjiang Trading Co., Ltd.	58.92%
55	上海世茂信擇實業有限公司	Shanghai Shimao Xinze Property Co., Ltd.	79.05%
56	黑龍江通海建材貿易有限公司	Heilongjiang Tonghai Construction Materials Trading Co., Ltd.	79.05%
57	廈門世茂新領航置業有限公司	Xiamen Shimao New Pioneer Property Co., Ltd.	49.20%

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BUSINESS

OVERVIEW

We are a large-scale developer and owner of high-quality real estate projects in China. We specialize in developing mid- to high-end residential, retail and office properties for sale and prime and well-located hotel, retail and office properties for long-term investment. We have a track record of successfully bringing to market real estate projects in Shanghai, Beijing, Hangzhou, Suzhou, Nanjing, Fuzhou and other fast-growing cities in China. We believe that this track record, together with the strong recognition of our “Shimao” brand name, positions us well as we continue to develop and market our real estate projects in cities throughout China. We aim to continue to grow as a leading property developer and investor with a strong presence in China’s key cities and economic regions as well as Hong Kong by continuing to enhance our “Shimao” brand name, create and develop innovative and market-leading properties, pursue property diversification and increase our proportion of investment properties and hotels to achieve a balanced revenue profile and expand our business operations and land bank in a disciplined manner.

As of December 31, 2017, we had a total of 165 projects (including projects we develop with our joint venture partners) at various stages of development in 47 cities located in the Yangtze River Delta Region (including Jiangsu and Shanghai District and Zhejiang District), Bohai Rim Region, Northeastern Region, Western and Southern Central Region, Southern China and Fujian Province and other regions of rapid economic growth. As of December 31, 2017, we had a land bank with an estimated total GFA attributable to us of approximately 47.9 million sq.m., comprising properties under development with an aggregate planned GFA attributable to us of approximately 20.23 million sq.m. and properties held for future development with an aggregate planned GFA attributable to us of approximately 27.67 million sq.m. As of December 31, 2017, we had completed properties unsold with an aggregate GFA attributable to us of approximately 1.0 million sq.m. As of December 31, 2017, our projects (including projects we develop with our joint venture partners) held for future development included an aggregate planned GFA attributable to us of approximately 1.4 million sq.m. for which we had not obtained land use rights certificates but had entered into land grant contracts or obtained land grant confirmation letters and were in the process of applying for the relevant land use rights. Our average land cost for our land bank reserve as of December 31, 2017 was approximately RMB5,108 per sq.m. We believe our relatively low cost of land will enable us to continue to achieve a high profit margin in the future.

In addition, we acquired certain parcels of land, including those for projects we develop with our joint venture partners, with an aggregate planned GFA of approximately 4.6 million sq.m. for the four months ended April 30, 2018, of which approximately 1.6 million sq.m. are attributable to us and for which we have not obtained land use rights certificates but have entered into land grant contracts or obtained land grant confirmation letters and are in the process of applying for the relevant land use rights. These parcels of land include development sites in Shenzhen, Fuzhou, Beijing, Nanjing, Jiaxing, Hong Kong and other cities.

Our property portfolio comprises high-quality residential, retail and office properties for sale as well as high-end hotels, retail and office properties held for long-term investment, which include, among others, DoubleTree by Ningbo Beilun, MiniMax Hotel Xiamen Central, Le Royal Méridien Shanghai and its retail podium, Shanghai Shimao International Plaza, Hyatt on the Bund Shanghai, the Yuluxe Sheshan, A Tribute Portfolio Hotel, Shanghai, Beijing Shimao Tower, Shaoxing Shimao Holiday Inn, Conrad Xiamen, InterContinental Shanghai Wonderland and Hilton Nanjing Riverside. For the year ended December 31, 2015, 2016 and 2017, we generated 94.6%, 94.8% and 94.8%, respectively, of our revenue from the sales of properties and the remaining 5.4%, 5.2% and 5.2%, respectively, from our hotel operations, leasing of investment properties, property management and other operations.

We believe our past success is partially due to our well-developed knowledge of the socio-economic policies and development trends in China. We have been able to identify high-growth markets such as Beijing and the Bohai Rim Region as well as Shanghai and the Yangtze River Delta Region and have entered these markets in a timely manner. We believe that this has, in turn, allowed us to obtain land at prime locations (or locations that we expect will become prime) at a reasonable cost. Going forward, we intend to continue to increase our land bank reserve in a prudent and strategic manner.

For the years ended December 31, 2015, 2016 and 2017, our revenue was RMB57,733.0 million, RMB59,286.2 million and RMB70,425.9 million (US\$10,824.3 million), respectively, and the profit for the year was RMB8,158.7 million, RMB7,510.4 million and RMB10,570.7 million (US\$1,624.7 million), respectively.

OUR STRENGTHS

We believe our primary competitive strengths are:

Market leadership and proven execution capabilities

We have a track record of successfully bringing to market real estate projects in Shanghai, Beijing, Hangzhou, Suzhou, Nanjing, Fuzhou and other fast-growing cities in China and have achieved balanced sales nationwide, with recognized sales in 33 cities ended December 31, 2017. We have also adjusted our product mix to focus more on quality mass market projects, i.e., small- to medium-sized residential units, for first-time home buyers and upgraders, in order to boost our contracted sales and fasten our asset turnover rate. In 2013, we adopted an information technology system, namely, the SAP system, which is used to monitor sales and profitability of our projects, enhancing our flexibility to respond to market volatility.

We believe as a result of our market leadership and proven execution capabilities, coupled with the use of advanced technology, we will be able to continuously provide competitive products going forward.

Sizable and geographically diversified low-cost land bank in high growth cities

We have successfully accumulated large areas of land for future development. As of December 31, 2017, we had a total of 165 projects (including projects we develop with our joint venture partners) at various stages of development in 47 cities located in the Yangtze River Delta Region (including Jiangsu and Shanghai District and Zhejiang District), Bohai Rim Region, Northeastern Region, Western and Southern Central Region, Southern China and Fujian Province and other regions of rapid economic growth. As of December 31, 2017, we had a land bank with an estimated total GFA attributable to us of approximately 47.9 million sq.m., comprising properties under development with an aggregate planned GFA attributable to us of approximately 20.23 million sq.m. and properties held for future development with an aggregate planned GFA attributable to us of approximately 27.67 million sq.m. As of December 31, 2017, we had completed properties unsold with an aggregate GFA attributable to us of approximately 1.0 million sq.m. As of December 31, 2017, our projects held for future development included an aggregate planned GFA of approximately 1.4 million sq.m. for which we had not obtained land use rights certificates but had entered into land grant contracts or obtained land grant confirmation letters and were in the process of applying for the relevant land use rights.

We believe that our market foresight and in-depth understanding of property market dynamics, arising out of the collective experience of our management team, have enabled us to seek and capitalize on land acquisition opportunities at relatively early stages of their long-term appreciation potential. We believe this allows us to achieve advantageous unit land costs relative to the current market values of our property projects, therefore mitigating our financial risk relating to the development of our projects. The average land cost of our land bank as of December 31, 2017 was RMB5,108 per sq.m. Our strategy is to remain focused on the prudent acquisition of land in the Yangtze River Delta Region and expand in Fujian Province. Our recently acquired parcels of land in the four months ended April 30, 2018 are located in Shenzhen, Fuzhou, Beijing, Nanjing, Jiaxing, Hong Kong and other cities. Most of the land we have acquired is situated at prime locations. As such, we believe these land reserves provide us with an attractive project development pipeline in the coming years.

In addition, we remain disciplined in replenishing and expanding our land bank to meet our business needs based on our strict investment criteria. We strive to strike a balance between development opportunity and risk control, and we also seek cooperation opportunities and diversify our land acquisition channels on top of public tender, auction and listing.

Balanced property portfolio with strong recurring income

We believe that property selection and positioning are crucial to our success. We have carefully expanded our business model beyond the development and sale of residential properties to include the development of hotels, retail and office properties, which we sell or hold for long-term investment. By balancing our product portfolio, we aim to not only reduce our dependence on the residential property sector, but also to enhance the stability of our long-term investment revenue by increasing the portion of our earnings and cashflow from recurring income from hotel and rental properties.

As of December 31, 2017, we have completed and commenced operations at the Yuluxe Sheshan, A Tribute Portfolio Hotel, Shanghai, Le Royal Méridien Shanghai, Hyatt on the Bund Shanghai, Hilton Nanjing Riverside, Holiday Inn Mudanjiang, Crowne Plaza Shaoxing, Conrad Xiamen, Holiday Inn Shaoxing, Hilton Shenyang, Hilton Tianjin Eco-City, InterContinental Fuzhou, DoubleTree by Hilton Wuhu, Yuluxe Hotel Taizhou, DoubleTree by Hilton Ningbo Chunxiao, Hilton Yantai, Hilton Wuhan Riverside, DoubleTree by Hilton Ningbo Beilun, Yuluxe Hotel Xuzhou, InterContinental Shanghai Wonderland, Yuluxe Hotel Jinjiang, Yuluxe Hotel Yuyao, Yuluxe Hotel Wenchang Hainan, Yuluxe Hotel Chengdu, Shimao MiniMax Hotel Dalian, Le Méridien Hangzhou Binjiang, Yu Resort Quanzhou, MiniMax Hotel Shishi, Sheraton Hong Kong Tung Chung and Four Points by Sheraton Hong Kong Tung Chung, which together had over 6,000 guest rooms. As of December 31, 2017, the fair value of our hotels was RMB37.2 billion. We have established long-term strategic relationships with internationally renowned hotel groups to operate and manage our hotels.

In 2009, we completed the injection of our commercial projects and properties into Shanghai Shimao and acquired a 64.2% equity interest in Shanghai Shimao. Pursuant to this reorganization, Shanghai Shimao began to hold our commercial property development portfolio. Shanghai Shimao had a land bank reserve of approximately 4.4 million sq.m. as of December 31, 2017. The property portfolio of Shanghai Shimao includes Shimao International Plaza, an office building, Shimao Department Stores and Shimao Cinemas. As of December 31, 2017, Shimao International Plaza in Shanghai, Shaoxing, Kunshan, Nanjing, Changshu, Suzhou, Xuzhou, Shenyang, Jinan, Shishi and Wuhu, office buildings in Beijing and Shanghai, and Shimao Cinemas in Beijing, Shenyang and Yantai, have all commenced operations.

We believe that as a result of our balanced product portfolio and our strong recurring income, we are less susceptible to fluctuations in any single property market segment in the PRC.

Expertise in integrated development projects

We believe we are one of the few developers in China that have the resources and experience to develop large parcels of land comprising residential, commercial and hotel properties in the same location. We take a large-scale and integrated approach to property development. When developing residential properties, we also build hotels, commercial and leisure facilities and landscape gardens that possess high values and increase the selling prices of the related residential properties by transforming the neighboring areas in a positive fashion. When developing our hotels, we not only build large-scale hotels with sizeable room counts fitted out with quality amenities, but also create diverse and high-quality dining, entertainment, fitness, leisure, business and corporate events facilities which broaden the customer appeal and revenue base of the hotels. By developing both residential and non-residential properties in the same location, we can help create new urban centers. We believe that this large-scale and integrated approach not only allows us to create property developments of significant size and value but also better positions us in our discussions with the local governments with regard to acquiring land and obtaining infrastructure and other support for our projects. Developing large-scale projects also enables us to better leverage our highly experienced project management team and strengthen our negotiation position versus contractors and materials suppliers.

Valuable and well-recognized brand name associated with high quality and innovative products

We believe that we have established a strong brand name in China's property market through our track record of bringing large-scale, high-quality and innovative products in various cities in China to market.

Our philosophy is to develop properties that have top quality in terms of both design and construction. To achieve high quality in design, we engage internationally renowned architects and designers to create innovative and differentiated properties. To achieve high quality in construction, we use premium materials and fittings in the construction and furnishing of our properties, and closely scrutinize the work of our chosen contractors. We believe our focus on quality has enabled us to differentiate our properties and achieve favorable sales and rental prices, and, more importantly, to associate the "Shimao" brand with prestige, high quality and customer satisfaction.

The strength of our brand is evidenced by the many industry awards we have won. We have received numerous accolades for our quality property projects and strong after-sales support and property management services. Our acclaimed flagship project, Shanghai Shimao Riviera Garden, ranked first in terms of sale proceeds among residential developments in Shanghai for four consecutive years from 2001 to 2004. We also received the “Elite Residence Technology Award 2004 – Gold Interior Design Award for Boutique” (精瑞住宅科學技術獎(2004年):成品住宅室內裝修金獎), which was jointly awarded by authorities including the PRC State Construction Department. Our “Shimao” brand won a “China Super Brand” (中國超級品牌) award in 2004, and a “Respected Real Estate Enterprise in Shanghai” (令人尊敬的上海房地產企業) award in 2005. In 2009, we were ranked No. 1 among the “2009 Top Ten Foreign-Invested Real Estate Enterprises in China” by State Council Development Research Center of Enterprise Institute, Tsinghua University Real Estate Institute and the Institute of Housing Index. We were also ranked among the “Top 100 Star Enterprises of Overseas Chinese in China” from 2006 to 2008 by the Office of the Overseas Chinese Affairs of the State Council of the PRC. In addition, we also received awards including “Hurun Most Valuable Chinese Brands” and “Hurun Corporate Social Responsibility Top 50” by Hurun Report in 2009 and 2010, and “Top 10 PRC Real Estate Enterprises in terms of Brand Value” by China Real Estate Report and the “Golden Landmark – 21st Century PRC City Complex Industry Leading Enterprises Award” (金地標•21世紀中國城市綜合體2012年度行業領軍企業大獎) by 21st Century Business Herald and National Real Estate Federation of Industry and Commerce Chamber jointly in 2012. In 2013, we were ranked No. 7 among the “2013 Top 100 Listed Property Developers with Comprehensive Capability in China” by China Real Estate Research Association and China Real Estate Association. In 2014, we were ranked No. 7 among the “2014 Top 500 Listed Property Developers with Comprehensive Capability in China”; No. 1 among the “2014 Top 500 Listed Property Developers with Growth Speed in China”; and No. 4 among the “2014 Top 500 Listed Property Developers with Tourism Property in China” by China Real Estate Research Association and China Real Estate Association. In addition, we also received the “Social Contribution Award of New Towns” by China Business Journal. In 2015, we were among the list of “Top 10 Real Estate Developers in China” by China Real Estate Research Institute, “Top 10 Real Estate Brand Enterprises in China” by the Time Weekly and we were ranked top 10 with respect to comprehensive strength in “China’s Top 100 Real Estate Enterprises”. In 2016, we received the award “2015 Annual Industry Leader” by Shanghai Real Estate Chamber of Commerce and we were honored as one of the “China’s Top 100 Real Estate Developers” in terms of financing capability by the Time Weekly. In 2017, we were recognized as the “Annual Value Company of China Real Estate Industry” (2017中國價值地產總評榜 – 世茂集團年度價值地產企業) by Daily Economic News. We were also recognized as “2017 Beijing News Great Country Ingenuity Salute – Ingenuity Watch Brand” (2017年新京報大國匠心致敬禮 – 匠心守望品牌) by Beijing News. We believe our “Shimao” brand is of tremendous value to us as we expand our business and geographic reach in cities and regions throughout China.

Diversified funding channels with strong financing capabilities

We have established relationships with many leading banks in China as well as major international financial institutions, which provide us with multiple financing channels to fund our business operations. Our major lending PRC banks include all of the four largest state-controlled national banks, namely Bank of China, China Construction Bank, Agriculture Bank of China and Industrial and Commercial Bank of China. To diversify our financing sources and secure sufficient working capital, we also obtained further funding by accessing the international capital markets. Since our initial public offering and listing of shares on the Hong Kong Stock Exchange in 2006, we have engaged in various capital raising transactions, including the offerings of senior notes, such as

the 2015 Notes, the 2017 Notes and the January 2018 Notes. After we acquired an additional equity interest in Shanghai Shimao, a company listed on the Shanghai Stock Exchange, in 2009, Shanghai Shimao became our subsidiary, affording us access to the A-share market in the PRC. In addition, we currently have multiple offshore credit facilities for various purposes, such as financing property development, refinancing our existing indebtedness or for general corporate purposes. As of December 31, 2017, we had unutilized banking facilities of RMB20.0 billion (US\$3.1 billion). We have also issued domestic private bonds and plan to issue asset-backed securities in the PRC. See the section entitled “Business – Recent Developments.” We believe that our ability to access global capital markets provides us with flexibility to fund our operations and enhance our liquidity position. In addition, we use working capital efficiently through well-delineated fund deployment among residential property development, commercial property development and hotel development and operations. We believe that our ability to efficiently manage capital enables us to optimize our asset turnover.

Strong relationships with international business and real estate industry partners

We have entered into long-term management agreements with the Starwood Group to manage the A Tribute Portfolio Hotel Shanghai and the Le Royal Méridien Shanghai, which opened in November 2005 and September 2006, respectively. We have also reached similar agreements with the Hyatt Group to manage the Shanghai Hyatt on the Bund, which was opened in 2007, the InterContinental Group to manage the Mudanjiang Holiday Inn, Holiday Inn Shaoxing, InterContinental Fuzhou and Crowne Plaza Shaoxing, which was opened in October 2010, and September 2011, January 2014 and March 2014, respectively, and Hilton Group for Hilton Nanjing Riverside, Double Tree by Hilton Wuhu, Hilton Tianjin-Eco-City, Double Tree by Hilton Ningbo Chunxiao, Hilton Wuhan Riverside, Conrad Xiamen and Double Tree by Hilton Ningbo Beilun, which was opened in December 2011, October 2013, October 2015, December 2015, July 2016, August 2016 and December 2016, respectively. We believe the management of our hotels by such world-renowned hotel groups significantly enhances the image and recognition of our hotel properties among our target customers, including international and domestic travelers. In addition, in March 2017, we entered into a comprehensive strategic cooperation agreement to expand the boutique hotel market in China.

Various domestic and international retailers have also entered into strategic cooperation agreements with us and have agreed to lease a portion of our existing and future retail properties. Our strategic retail partners include Parkson, McDonalds, Starbucks, Auchan and Watsons. We believe that our ability to enter into strategic cooperation agreements with these domestic and international retailers prior to the completion of the relevant retail properties will allow us to obtain a higher occupancy rate upon their respective opening. Through this approach we intend not only to enhance our financial stability and the profile and attractiveness of our retail properties but also to improve the marketability and prospects of our residential properties and hotels which are developed in conjunction with such retail properties.

We have established strong working relationships with different suppliers and consultants, including TOTO China Co., Ltd., Kohler (China) Investment Co., Ltd, Hansgrohe Sanitary Products (Shanghai) Co., Ltd., Bosch Thermotechnology (Beijing) Co., Ltd., Oppl Lighting Co., Ltd., Xiamen Danke Technology Co., Ltd., Gree Electric Appliances Inc., Mademake Shanghai Architectural Design and Consultant Co., Ltd. And Chongqing Donehome Landscape Architecture Planning & Design Co., Ltd., Hitachi Elevator (China) Co., Ltd., Siemens (China) Co., Ltd., Daikin (China)

Investment Co., Ltd., A. O. Smith (China) Water Heater Co., Ltd. We believe our collaboration with such suppliers and international architectural and design consultants have enabled us to attain a consistent standard of high quality in the design and construction of our property projects.

In recent years, we have partnered with various leading PRC property developers, including Agile Property Holdings Limited (“Agile”), China Overseas Land & Investment Ltd, Guangzhou R&F Properties Co., Ltd. (“R&F”) and KWG Property Holding Limited (“KWG”), to develop certain projects in Guangzhou, Hangzhou and Tianjin. We believe that, leveraging on the support and contribution of these property developers, we will further enhance our financial and operational management capabilities and practices, strengthen our overall risk control and management systems and achieve stable long term development.

We believe that stable, long-term collaborative relationships with these partners enhances not only the attractiveness of our property developments and investments, but also our long-term prospects as we continue to develop and expand our business under our “Shimao” brand in China.

Experienced and stable management team

Our chairman, Mr. Hui Wing Mau, has over 28 years of experience in property development and investment throughout China, and is a respected leading figure within a number of real estate industry bodies. Our management team consists of experienced professionals, some of whom have received internationally recognized qualifications, and have extensive experience in the development, sales and management of real estate projects not only in major Chinese cities such as Shanghai and Beijing but also overseas.

We believe that by employing and retaining individuals from domestic as well as overseas backgrounds, we have been able to capitalize on their collective expertise in both the local and international property markets, and selectively apply different ideas, concepts and practices such that we can develop and sell properties that appeal to both domestic as well as overseas customers.

We adopt a flat management structure, which enables our management team to make decisions quickly and efficiently. This in turn leads to effective project management which enables us to shorten our project development timeframe, improve capital efficiency and manage our financial risks at the same time.

OUR STRATEGIES

We aim to continue to grow as a leading property developer and investor with a strong presence in key cities and economic regions in China. We have developed the following business strategies to pursue our growth objectives:

Continue to enhance our “Shimao” brand name

We intend to continue to promote the “Shimao” brand by continuing to focus on quality and innovation in our property projects and providing the purchasers of our properties with strong after-sale support and property management services. We will continue to pursue innovation within each of the residential, hotel, retail and office property sectors. For example, we plan to develop hotels and shopping complexes with themed gardens, low-density commercial zones and office buildings in a landscaped environment, as well as scenic residential, leisure and tourism zones. In this

respect, we will continue to collaborate with international architects and designers to create market-leading projects that are unique and distinctive. We believe that innovation will provide us with a competitive advantage by differentiating our products and services from those of our competitors, and by providing a unique experience to our customers.

We will also continue to develop attractive and well-located hotels, retail and office properties that create value for our hotel management partners, business partners, tenants and end-customers. We believe that delivering value to our customers and enhancing their overall satisfaction with our products will enable us to strengthen our “Shimao” brand further, and reinforce its association with prestige and quality. At the same time, we intend to continue to build market recognition of the “Shimao” brand through marketing initiatives such as advertising campaigns, participation in international property exhibitions and the establishment of customer loyalty clubs that aim to generate incremental sales through customer referrals.

Continue to pursue product diversification and refine asset portfolio to achieve a balanced revenue profile

We intend to continue to expand into the hotel, retail and office property sectors in the PRC and Hong Kong to diversify our sources of future revenue. At the same time, we aim to continue to refine our asset portfolio by increasing our proportion of properties held for investment to achieve greater revenue stability through recurrent hotel and rental income. We believe that such diversification measures will increase the breadth and stability of our revenue by reducing our overall exposure to volatility within any one property segment, in particular the volatile residential property segment.

With regard to hotels, we plan to focus on developing luxury hotels to be operated by renowned international hotel management groups. We have entered into management contracts with the InterContinental and Hilton Groups with respect to a number of our hotels and we plan to enter into similar management contracts for some of our other hotels that are under development or for future development. In addition, we have established our own hotel management company to manage some of our other hotels under development or currently being planned. See “Business – Our Hotels and Investment Properties – Hotels.”

With regard to retail and commercial properties, we intend to focus on developing high-quality properties in central commercial areas in major cities. Due to the continuing economic growth in China, rental prices for retail and commercial properties have increased significantly in recent years and we believe this trend will continue. We intend to enter into long-term tenancy agreements with reputable anchor retail tenants to secure stable and recurring rental income.

Continue to expand our business operations and land bank in a disciplined manner

We intend to leverage our strong brand name and extensive experience to continue developing high-quality properties in our chosen markets in China. In addition to the markets in which we already have a presence, we have identified the Yangtze River Delta, Bohai Rim, West Coast of the Taiwan Strait, Northeastern, Central and Southern and Western Regions as the regions where we intend to continue to expand our operations. We believe that our brand and expertise in developing high-quality properties, coupled with high economic growth and government incentives in these regions, will allow us to increase our profitability and brand recognition. As part of our expansion strategy, we intend to also increase our presence in second- and third-tier cities which we believe

have great growth potential. We will continue our strategy of conducting in-depth market research and analysis with the aim of identifying property trends and potential development opportunities as early as possible in a locality's potential development cycle. We will also continue to pursue opportunities that are large scale in nature, so as to continue to achieve economies of scale in land acquisition and construction costs.

We intend to continue to adopt a disciplined approach to land acquisition. We believe that purchasing land at prices that are low relative to the expected selling prices or capital values of the finished projects is a critical factor in managing financial risk and achieving superior profitability. We will make all decisions relating to land acquisitions based on thorough research and analysis of a project's expected returns in the context of future property and economic trends in cities in China. By implementing these procedures, we seek to expand our land bank while maintaining a system of financial controls and managing our costs through a detailed budget-planning process. Overall, we intend to continue to pursue a prudent and disciplined corporate strategy of steady and sustainable growth.

Promote environmental protection, energy-saving and low carbon emission in planning and design work

We believe that a low-carbon development strategy and construction of low-carbon communities are the social responsibility of the real estate industry, which will not only allow us to distinguish ourselves from our competitors and enhance our brand name and corporate image in the PRC, but also lead to sustainable development of our business.

We adhere to a "harmony in architecture and environment" development philosophy and are actively involved in developing and constructing environmentally friendly buildings. We have made this one of our corporate development directions. For example, we have developed a number of projects featured with ecological design and environmentally friendly structure, including Fuzhou Minhou Shimao Dragon Bay, Fuzhou Guling Ebi Project & Fuzhou Guling Zhuli Hotel and Quanzhou Shimao Zimaoshan. We plan to apply advanced and innovative ecological technologies to this project with an aim of making it a role model for ecological architecture and zero-carbon life development in China. Going forward, we plan to incorporate such environmentally friendly concepts into our other projects to strengthen our public recognition. We believe such efforts will enable us to differentiate ourselves from our competitors, increase our product appeal and enhance the competitiveness of our business.

Continue to adopt prudent financial policy and proactive approach to capital structure management

We plan to continue to closely monitor our capital and cash positions and carefully manage our land costs, construction costs, operating expenses and fixed charge coverage. For example, we strive to acquire our land reserves at relatively low costs and keep the average land costs for our properties within a reasonable percentage range of the then-prevailing market prices of comparable properties. We believe that by adhering to prudent cost management, we will be able to utilize our working capital more efficiently and maintain healthy profit margins.

We monitor our capital and indebtedness level by reviewing our net gearing ratio, which is equal to net borrowings (total borrowings subtracting cash and cash equivalents and restricted cash for our borrowings) divided by total equity. Our net gearing ratio as of December 31, 2017 was approximately 58.9%. Going forward, we plan to maintain a net gearing ratio of below 60%.

We intend to continue to closely monitor the maturity profiles of our borrowings and manage the level of liquidity to ensure sufficient cash flows to service our indebtedness and meet cash requirements arising from our business. We will remain disciplined in our capital commitment and proactive in managing our capital structure to meet our ongoing capital requirements.

RECENT DEVELOPMENTS

Redemption of the 2014 Notes

On January 22, 2018, we redeemed all outstanding principal amount of the 2014 Notes of US\$600,000,000 at a redemption price of 104.063% plus accrued and unpaid interest to the redemption date.

Issue of the January 2018 Notes

On January 30, 2018, we issued the January 2018 Notes in an aggregate principal amount of US\$500,000,000. See “Capitalization and Indebtedness” and “Description of Other Material Indebtedness – January 2018 Notes.”

March 2018 Loan Agreement

On March 19, 2018, Shimao Property Holdings (BVI) Limited, our wholly owned subsidiary entered into a loan agreement with a bank, pursuant to which the bank has agreed to lend to Shimao Property Holdings (BVI) Limited a term loan of a principal amount of US\$350,000,000. The loan matures on April 15, 2019. As of the date of this offering memorandum, we have fully drawn down the loan.

May 2018 Loan Facility

On May 25, 2018, Shimao Property Holdings (BVI) Limited, our wholly owned subsidiary entered into a facility letter with a bank loan matures on which the bank has agreed to make available to Shimao Property Holdings (BVI) Limited a term loan facility of a maximum HKD/USD principal amount, which is equivalent to RMB200,000,000 (the “Loan Facility”). The Loan Facility is available within six months from the date of Shimao Property Holdings (BVI) Limited’s acceptance of the facility letter. The maturity date of the Loan Facility is 24 months from the earlier date of Shimao Property Holdings (BVI) Limited’s acceptance of the facility letter or the expiry date of the relevant standby letter of credit. As of the date of this offering memorandum, we have drawn down an amount of US\$28,700,000 under the Loan Facility.

OVERVIEW OF OUR PROJECTS

As of December 31, 2017, our portfolio of property development projects consisted of 165 projects (including projects we develop with our joint venture partners) under various stages of development in 45 cities across China, including Shanghai, Beijing, Nanjing, Kunshan, Jiangyin, Zhangjiagang, Changshu, Suzhou, Wuxi, Changzhou, Xuzhou, Hangzhou, Shaoxing, Nantong, Ningbo, Yantai, Qingdao, Tianjin, Dalian, Wuhan, Wuhu, Harbin, Shenyang, Chengdu, Mudanjiang, Fuzhou, Xiamen, Changsha, Nanchang, Wenchang, Jinan and Xi'an, Yinchuan, Nanning, Shenzhen, Guangzhou, Gu'an, Lingang, Chongqing, Quanzhou, Fenghua, Hefei, Fenghua, Foshan, Hainan, Jinjiang and Hong Kong. We divide our property developments into three categories: (i) completed property developments; (ii) properties under development; and (iii) properties held for future development. As our projects typically comprise multiple-phase developments on a rolling basis, one project may include different phases at various stages, including completion, under development or held for future development. As of December 31, 2017, we had, in terms of GFA attributable to us in our 165 projects, completed properties unsold of approximately 1.0 million sq.m., properties under development of approximately 20.23 million sq.m. and properties held for future development of approximately 27.67 million sq.m.. As of December 31, 2017, our projects (including projects we develop with our joint venture partners) held for future development included an aggregate planned GFA attributable to us of approximately 1.4 million sq.m. for which we had not obtained land use rights certificates but had entered into land grant contracts or obtained land grant confirmation letters and were in the process of applying for the relevant land use rights. In addition, we acquired certain parcels of land, including those for projects we develop with our joint venture partners with an aggregate planned GFA of approximately 4.6 million sq.m. for the four months ended April 30, 2018, of which approximately 1.6 million sq.m. are attributable to us and for which we have not obtained land use rights certificates but have entered into land grant contracts or obtained land grant confirmation letters and are in the process of applying for the relevant land use rights.

The following table sets forth project-by-project information for our interest in our 165 property development projects⁽¹⁾ as of December 31, 2017:

No.	Project Name	Location	Site Area (sq.m.)	Aggregate GFA for Entire Project ⁽²⁾		GFA Under Development (sq.m.)	GFA Held for Future Development		Interest Attributable to Us ⁽⁴⁾
				GFA Completed but Unsold (sq.m.)	Planned GFA ⁽³⁾ (sq.m.)		Rights Not Yet Obtained ⁽³⁾ (sq.m.)	Land Use	
North China									
1	Shenyang Shimao Wulihe	Shenyang	113,509	621,938	32,691	51,316	45,451	-	100%
2	Shenyang Qipan Mountain	Shenyang	521,256	550,000	20,799	27,931	320,000	-	50%
3	Dalian Shimao Glory City	Dalian	436,562	2,033,986	6,875	118,845	794,560	-	100%
4	Harbin Shimao Riviera New City	Harbin	1,050,000	1,203,351	2,673	-	-	-	100%
5	Mudanjiang Shimao Holiday Landscape	Mudanjiang	253,563	516,877	882	12,501	265,257	-	100%
6	Mudanjiang Shimao South Bund	Mudanjiang	210,682	782,512	3,054	371,132	303,334	-	100%
7	Tianjin Eco-City	Tianjin	637,355	1,196,710	582	106,264	100,453	-	100%
8	Beijing Shimao Salamanca	Langfang	539,442	1,220,760	125	-	395,958	-	65%
9	Beijing Fangshan Gongchen Project	Beijing	69,599	177,080	685	-	-	-	50%
10	Beijing Fangshan Changyang Project	Beijing	18,644	20,220	9,150	-	-	-	50%
11	Beijing Tongzhou Project	Beijing	49,759	303,612	856	-	-	-	50%
12	Beijing Tongzhou Project (North Parcel)	Beijing	104,517	171,120	-	171,000	-	-	50%
13	Yidu Project	Baoding	818,591	423,671	-	88,187	200,119	-	95%
14	Dalian Jinzhou Shimao Dragon Bay	Dalian	3,318,119	3,697,444	156,895	315,449	2,716,716	-	100%
15	Gu'an Project	Langfang	291,353	764,425	-	-	747,053	-	80%
16	Beijing Shangzhuang Project	Beijing	299,485	262,007	-	-	262,007	-	100%
17	Tongzhou Yangzhuang No. 12 Project	Beijing	16,000	45,600	-	-	45,600	-	100%
18	Beijing Fengtai District Xituying Village Parcel	Beijing	65,650	193,846	-	-	193,846	-	60%
19	Beijing Daxing District Yinghai Town Parcel	Beijing	75,065	133,506	-	-	133,506	-	30%
20	Beijing Laishui Parcel I	Baoding	35,000	104,403	-	-	104,403	-	100%

**GFA Held for Future
Development**

No.	Project Name	Location	Site Area (sq.m.)	Aggregate GFA for Entire Project ⁽²⁾		GFA Under Development (sq.m.)	Development		Interest Attributable to Us ⁽⁴⁾
				GFA Completed but Unsold (sq.m.)	GFA for Entire Project ⁽²⁾ (sq.m.)		Planned GFA ⁽³⁾ (sq.m.)	Land Use Rights Not Yet Obtained ⁽³⁾ (sq.m.)	
21	Beijing Laishui Parcel II	Baoding	3,000	3,633	-	-	3,633	-	100%
22	Changchun Lianhuashan Project Nos. 82-87 Parcels	Changchun	476,131	571,358	-	-	571,357	-	63%
23	Tianjin Jinman Project	Tianjin	197,553	1,333,231	301	1,098,216	148,304	-	25%
Zhejiang									
24	Hangzhou Shimao Born with Legend	Hangzhou	54,441	230,920	20,084	141,912	-	-	100%
25	Hangzhou Gate of Zhejiang	Hangzhou	33,857	391,607	32,294	192,994	117,271	-	100%
26	Ningbo Shimao World Gulf	Ningbo	234,046	774,695	-	143,116	-	-	100%
27	Ningbo Shimao City	Ningbo	124,061	313,673	84,286	-	-	-	50%
28	Ningbo Shimao Sea Dawn	Ningbo	602,702	832,011	19,538	90,548	74,965	-	100%
29	Ningbo World Gulf Damuwan	Ningbo	441,406	510,879	36,410	148,734	254,579	-	100%
30	Ningbo Yuyao Shimao Moushan Lake	Ningbo	200,625	131,451	25,971	35,543	45,026	-	70%
31	Hangzhou Qianjiang Century City	Hangzhou	46,761	200,995	-	200,995	-	-	25%
32	Hangzhou Qinglong Project	Hangzhou	36,395	146,829	-	146,829	-	-	50%
33	Ningbo Yaojiangwan Parcel	Ningbo	94,301	169,742	-	169,742	-	-	51%
34	Hangzhou Pengbu Project	Hangzhou	75,903	284,887	-	207,437	77,450	-	50%
35	Ningbo Shimao Fenghua Peach Garden	Ningbo	163,285	143,858	-	125,825	-	-	50%
36	Shaoxing Shimao Works of Time	Shaoxing	115,152	282,665	-	148,093	-	-	51%
37	Jiaxing Tech. Project	Jiaxing	88,534	159,361	-	-	159,361	-	30%
38	Shaoxing Yuecheng District YC-04 Unit (Xiguo District) A-09 Parcel	Shaoxing	109,041	294,411	-	-	294,411	-	100%
39	Shaoxing Didang Lake No. 1 Parcel	Shaoxing	159,067	222,694	-	-	222,694	-	25%
40	Jiaxing Jingkai No. 2017-14 Parcel	Jiaxing	38,419	96,049	-	-	96,049	-	50%
41	Jiaxing Science and Technology City Parcel	Jiaxing	67,291	148,042	-	-	148,041	-	40%

**GFA Held for Future
Development**

No.	Project Name	Location	Site Area (sq.m.)	Aggregate GFA for Entire Project ⁽²⁾		GFA Under Development (sq.m.)	GFA Held for Future Development		Interest Attributable to Us ⁽⁴⁾
				GFA Completed but Unsold (sq.m.)	GFA for Entire Project ⁽²⁾ (sq.m.)		Planned GFA ⁽³⁾ (sq.m.)	Land Use Rights Not Yet Obtained ⁽³⁾ (sq.m.)	
Shandong									
42	Qingdao Shimao Noble Town	Qingdao	931,583	7,915	1,779,043	101,340	352,301	-	100%
43	Jinan Xiaoya Parcel	Jinan	70,657	-	278,712	125,601	81,709	-	50%
44	Jinan Shimao The Capital of Yuanshan	Jinan	188,050	12,261	621,372	77,071	76,021	-	51%
45	Jinan Zhangqiu District New No. 4 Middle School Parcel	Jinan	212,203	-	424,406	-	424,406	-	17%
46	Jinan Huaiyin District Meili Road Parcel	Jinan	50,625	-	131,625	-	131,625	-	50%
47	Jinan Zhangqiu Nanbu Project	Jinan	93,666	-	112,399	-	112,399	-	60%
Jiangsu and Shanghai									
48	Changzhou Shimao Champagne Lake	Changzhou	853,835	-	1,433,954	166,353	-	-	100%
49	Wuxi Shimao The Capital	Wuxi	232,965	6,808	1,121,975	432,044	300,000	-	50%
50	Shanghai Shimao Riviera Garden	Shanghai	36,200	-	81,669	81,238	-	-	100%
51	Shanghai Shimao Sheshanli	Shanghai	94,510	21,401	157,113	-	-	-	50%
52	Suzhou Shimao Canal Scene	Suzhou	385,101	4,261	1,119,801	20,808	-	-	100%
53	Suzhou Shimao Shihu Bay	Suzhou	290,951	6,764	452,355	90,121	-	-	51%
54	Lingang Fengxiangyuan Parcel	Shanghai	26,400	-	66,000	66,000	-	-	51%
55	Nantong Shimao Lohas City	Nantong	375,462	10,566	1,103,428	228,316	200,000	-	50%
56	Zhangjiagang Shimao Lake Palace	Zhangjiagang	613,974	34,147	1,212,367	78,851	417,232	-	51%
57	Shanghai Zhoupu Shimao Cloud Atlas	Shanghai	49,369	-	121,129	74,396	-	-	51%
58	Jiangyin Shimao Dragon Bay	Jiangyin	764,453	51,924	1,156,465	458,261	600,000	-	60%
59	Shanghai Nanjing Road Project	Shanghai	20,290	-	66,096	1,203	64,893	-	45%
60	Shanghai North Bund Project	Shanghai	4,988	-	37,968	893	34,968	-	51%

No.	Project Name	Location	Site Area (sq.m.)	Aggregate			GFA Held for Future Development			Interest Attributable to Us ⁽⁴⁾
				GFA for Entire Project ⁽²⁾ (sq.m.)	GFA Completed but Unsold (sq.m.)	GFA Under Development (sq.m.)	Planned GFA ⁽³⁾ (sq.m.)	Rights Not Yet Obtained ⁽³⁾ (sq.m.)	Land Use	
61	Shanghai Luojing Project	Shanghai	62,848	100,556	-	-	100,556	-	51%	
62	Suzhou Yuanhe Street Project	Suzhou	112,119	280,298	-	-	280,298	-	33%	
63	Shanghai Baoshan Luodian Parcel	Shanghai	89,155	136,852	-	-	136,852	-	23%	
64	Shanghai Jinshan Development Park Project	Shanghai	43,610	87,219	-	-	87,219	-	33%	
65	Kunshan Commercial and Residential Parcel	Kunshan	120,263	360,000	-	-	360,000	-	51%	
66	Kunshan Commercial Parcel	Kunshan	40,000	66,000	-	1,000	65,000	-	51%	
67	Shanghai Songjiang District Zhongshan Street Parcel	Shanghai	43,306	69,289	-	-	69,289	-	33%	
Nanjing District										
68	Nanjing Straits City	Nanjing	314,992	1,121,745	5,085	278,294	-	-	100%	
69	Nanjing Shimao Bund New City	Nanjing	428,085	1,660,937	232	367,350	207,766	-	100%	
70	Centre Project	Wuhu	107,246	516,123	3,238	92,617	-	-	100%	
71	Xuzhou Shimao Dongdu	Xuzhou	558,330	569,704	1,484	11,883	100,000	-	100%	
72	Nanjing Yuhua Project	Nanjing	28,971	190,721	-	127,013	-	-	76%	
73	Nanjing Jianye Project	Nanjing	67,163	737,100	-	385,937	170,000	-	57%	
74	Nanjing Pukou Royal Real	Nanjing	100,482	251,206	-	51,206	200,000	-	50%	
Central China										
75	Wuhan Shimao Splendid River	Wuhan	574,758	2,027,901	7,547	276,114	534,332	-	100%	
76	Changsha Shimao Brilliantate Bay	Changsha	156,626	670,719	2,773	168,091	-	-	50%	
77	Nanchang Shimao APM	Nanchang	147,087	372,590	-	177,748	-	-	100%	
78	Wuhan Shimao New City	Wuhan	413,814	455,564	-	260,000	-	-	100%	
79	Nanchang Shimao The Grand View	Nanchang	129,921	404,124	320	303,284	-	-	51%	

**GFA Held for Future
Development**

No.	Project Name	Location	Aggregate			Development			Interest Attributable to Us ⁽⁴⁾
			Site Area (sq.m.)	GFA for Entire Project ⁽²⁾ (sq.m.)	GFA Completed but Unsold (sq.m.)	GFA Under Development (sq.m.)	Planned GFA ⁽³⁾ (sq.m.)	Land Use Rights Not Yet Obtained ⁽³⁾ (sq.m.)	
80	Hefei Shimao Jade Mansion	Hefei	184,067	536,977	4,642	282,510	-	-	51%
81	Wuhan Baishazhou Shimao Cloud Value	Wuhan	93,447	464,140	-	87,926	254,587	-	52%
82	Hefei Gaoxin Project	Hefei	158,567	366,685	-	366,685	-	-	51%
83	Wuhan Caidian Parcel No. 1-3	Wuhan	374,172	149,669	-	147,483	-	-	100%
84	Wuhan Shimao Carnival	Wuhan	127,310	50,924	-	-	50,924	-	100%
Western China									
85	Chengdu Shimao City	Chengdu	568,357	2,048,064	1,976	789,094	566,401	-	100%
86	Yinchuan Zhuanqu Project	Yinchuan	123,814	361,867	4,438	107,200	-	-	100%
87	Yinchuan Yuehai Project	Yinchuan	126,081	317,066	-	1,057	-	-	51%
88	Yinchuan Yuehai Project B	Yinchuan	136,825	344,086	-	304	-	-	51%
89	Yinchuan Yuehai Project C	Yinchuan	103,560	161,356	-	4,282	29,700	-	100%
90	Yinchuan Yuehai No. 57 Project	Yinchuan	120,001	240,175	-	120,000	120,000	-	100%
91	Yinchuan Yuehai No. 58 Project	Yinchuan	88,681	226,349	-	115,378	110,000	-	100%
92	Yinchuan Yuehai No. 59 Project	Yinchuan	165,334	331,801	-	131,800	200,000	-	100%
93	Xi'an Shimao City	Xi'an	123,814	511,039	4,253	87	-	-	56%
94	Chengdu Jianyang Shimao Misty Lakeside	Chengdu	96,276	114,248	294	-	28,334	-	100%
95	Chengdu Baohu Project	Chengdu	18,799	120,923	-	93,994	-	-	100%
96	Chongqing Shimao Luxury Mansion	Chongqing	266,206	970,979	4,782	470,466	28,146	-	100%
97	Xi'an Lijun Future City	Xi'an	255,050	811,000	-	-	811,000	-	25%
98	Chongqing Runyijiang Project	Chongqing	241,467	516,700	-	-	516,700	-	100%

**GFA Held for Future
Development**

No.	Project Name	Location	Site Area (sq.m.)	Aggregate GFA for Entire Project ⁽²⁾		GFA Under Development (sq.m.)	GFA Held for Future Development		Interest Attributable to Us ⁽⁴⁾
				GFA Completed but Unsold (sq.m.)	GFA for Entire Project ⁽²⁾ (sq.m.)		Planned GFA ⁽³⁾ (sq.m.)	Land Use Rights Not Yet Obtained ⁽³⁾ (sq.m.)	
Fujian									
99	Fuzhou Pingtan Straits Future City	Fuzhou	847,457	2,241,881	54,411	358,604	463,383	-	100%
100	Fuzhou Nantong Village Project	Fuzhou	62,224	285,347	33,212	250,347	-	-	100%
101	Fuzhou Guling Ebi Project	Fuzhou	502,848	372,146	-	32,050	141,543	-	100%
102	Xiamen Tong'an TP01	Xiamen	84,447	157,500	-	155,551	-	-	50%
103	Quanzhou Luojiang Parcel Nos. 1-2	Quanzhou	91,156	303,911	-	303,911	-	-	100%
104	Fuzhou Licuoshan Parce	Fuzhou	38,677	112,407	-	112,407	-	-	100%
105	Xiamen Xiaocuo Parcel	Xiamen	15,078	62,951	-	62,951	-	-	50%
106	Xiamen Xiang'an Xilu Parcel	Xiamen	21,178	90,818	-	90,818	-	-	50%
107	Quanzhou Shishi Shimao Skyscraper City	Quanzhou	1,374,813	3,263,120	229,737	524,658	1,240,419	-	100%
108	Quanzhou Jinjiang Shimao Dragon Bay	Quanzhou	633,333	2,242,037	41,165	349,515	86,124	-	100%
109	Jinjiang Shimao Hi Dream	Jinjiang	372,670	811,402	56,691	240,362	200,000	-	54%
110	Quanzhou Shimao Zimaoshan	Quanzhou	489,006	572,564	50,199	129,113	221,667	-	51%
111	Xiamen Xiang'an Project	Xiamen	90,981	349,737	-	314,072	-	-	51%
112	Xiamen Jimei Project	Xiamen	113,872	545,554	-	397,858	-	-	70%
113	Fuzhou Lianpan Project	Fuzhou	72,228	372,969	-	288,005	-	-	51%
114	Xiamen Xiang'an XP13 Project	Xiamen	17,126	34,300	-	-	34,300	-	100%
115	Xiamen Xiang'an XP14 Project	Xiamen	11,171	33,500	-	-	33,500	-	100%
116	Fuzhou Guihu Longtouyuan Project	Fuzhou	42,320	88,872	-	-	88,872	-	100%
117	Quanzhou Quangan Project	Quanzhou	106,145	306,336	-	-	306,336	-	51%
118	Fuzhou Changle No. 3 Project	Fuzhou	24,298	52,705	-	-	52,705	-	100%
119	Fuzhou Changle No. 3 Project	Fuzhou	47,411	115,500	-	-	115,500	-	100%
120	Fuzhou Fuqing No. 1 Project	Fuzhou	40,842	102,073	-	-	102,073	-	100%

**GFA Held for Future
Development**

No.	Project Name	Location	Site Area (sq.m.)	Aggregate GFA for Entire Project ⁽²⁾		GFA Under Development (sq.m.)	Land Use		Interest Attributable to Us ⁽⁴⁾
				GFA Completed but Unsold (sq.m.)	GFA for Entire Project ⁽²⁾ (sq.m.)		Planned GFA ⁽³⁾ (sq.m.)	Rights Not Yet Obtained ⁽³⁾ (sq.m.)	
121	Fuzhou Fuqing No. 3 Project	Fuzhou	49,315	-	137,841	-	137,841	-	100%
122	Jinjiang Dongshi Project	Jinjiang	55,512	-	177,295	-	177,295	-	60%
123	Quanzhou Luoyangjiang Project	Quanzhou	93,640	-	76,495	-	76,495	-	100%
124	Tongan No. T2017P01 Project	Xiamen	54,164	-	119,160	-	119,160	-	34%
125	Zhangzhou Changtai Longrenguqin Cultural Village Parcel	Zhangzhou	346,636	-	97,382	-	97,382	-	65%
126	Fuzhou Jin'an District Houlong Community Parcel II	Fuzhou	15,988	-	19,186	-	19,186	-	100%
127	Fuzhou Yongtai County Scenery Legend Project	Fuzhou	516,719	-	768,220	-	768,220	-	80%
128	Quanzhou Nan'an DOWNTOWN Fanhua Project	Quanzhou	110,422	-	403,132	-	403,132	-	55%
129	Fuzhou City 108 Building Project	Fuzhou	28,518	-	313,698	-	313,698	-	100%
130	Quanzhou Nan'an Guanciao Aileiyufu Project	Quanzhou	94,680	-	151,329	-	151,329	-	51%
131	Fuzhou No. 2017-41 Taijiang District Jinrong Street Parcel	Fuzhou	11,646	-	37,267	-	37,267	-	20%
132	Tongan No. T2017P04 Project	Xiamen	38,239	-	88,100	-	88,100	-	50%
Southern China									
133	Hainan Wenchang Shimao Moonriver	Wenchang	797,747	9,836	577,518	167,101	-	-	51%
134	Shenzhen Qianhai Shimao Financial Centre	Shenzhen	12,747	-	202,919	1	175,485	-	51%
135	Nanning Shimao Longgang Garden	Nanning	86,515	477	375,105	129,828	-	-	100%
136	Hong Kong Tung Chung Project	Hong Kong	12,902	-	56,715	56,715	-	-	100%
137	Nanning Shimao International Plaza	Nanning	116,440	-	270,717	35,169	235,548	-	50%
138	Hong Kong Kowloon Tai Wo Ping Project	Hong Kong	20,401	-	58,750	58,750	-	-	100%
139	Hong Kong New Kowloon Inland Lot No. 6549 Parcel	Hong Kong	19,348	-	91,770	-	91,770	-	23%
140	Guangzhou Zengcheng Project	Guangzhou	86,417	-	300,000	-	300,000	-	33%
141	Foshan Lvdao Lake Project	Foshan	33,557	-	83,891	-	83,891	-	100%

**GFA Held for Future
Development**

No.	Project Name	Location	Site Area (sq.m.)	Aggregate GFA for Entire Project ⁽²⁾		GFA Under Development (sq.m.)	GFA Held for Future Development		Interest Attributable to Us ⁽⁴⁾
				GFA Completed but Unsold (sq.m.)	GFA for Entire Project ⁽²⁾ (sq.m.)		Planned GFA ⁽³⁾ (sq.m.)	Land Use Rights Not Yet Obtained ⁽³⁾ (sq.m.)	
142	Foshan Chancheng No. 3 Project	Foshan	55,009	-	192,530	-	192,530	-	50%
143	Shenzhen Longgang Project	Shenzhen	321,946	-	1,364,500	-	1,364,500	1,364,500	100%
144	Foshan Chancheng No. 4 Project	Foshan	22,855	-	79,990	-	79,990	-	50%
145	Guangzhou Finance City	Guangzhou	27,595	-	414,255	389,800	-	-	33%
146	Guangzhou Asian Games City	Guangzhou	2,521,022	-	5,849,183	467,520	2,562,156	-	27%
Projects Held by Shanghai Shimao									
147	Changsha Shimao Plaza	Changsha	13,827	-	230,299	227,164	-	-	49%
148	Changshu Shimao The Centre	Changshu	278,527	12,136	914,831	97,156	102,999	-	100%
149	Changzhou Project (Commercial)	Changzhou	65,849	18,021	231,873	7,704	78,634	-	100%
150	Jinan Shimao International Plaza	Jinan	112,399	10,682	366,383	43,501	-	-	100%
151	Qingdao Shimao International Plaza	Qingdao	86,940	-	247,433	218,381	-	-	100%
152	Qingdao Shimao Noosa Bay	Qingdao	316,032	2,973	623,485	124,799	-	-	100%
153	Qingdao Shimao Shi'ao Tower	Qingdao	21,446	-	137,119	137,119	-	-	75%
154	Shanghai Shimao Nano Magic City	Shanghai	428,213	28,107	434,335	55,058	-	-	100%
155	Shenyang Shimao Wulihe (Commercial)	Shenyang	122,720	-	819,518	819,518	-	-	100%
156	Tianjin Wuying Shimao Luxury Mansion	Tianjin	200,448	-	396,342	-	150,050	-	100%
157	Wuxi Shimao International City	Wuxi	68,473	-	633,528	479,716	-	-	60%
158	Wuhan Shimao Carnival	Wuhan	1,995,679	-	985,163	648,497	-	-	100%
159	Xiamen Shimao Straits Mansion	Xiamen	30,543	2,169	343,547	166,149	-	-	100%
160	Ningbo Shimao Riviera Garden	Ningbo	60,607	-	170,585	56,221	-	-	100%
161	Ningbo Sunjia Project	Ningbo	63,031	-	249,379	237,201	-	-	40%
162	Kunshan (Hotel)	Kunshan	25,787	-	64,467	47,502	16,965	-	100%

**GFA Held for Future
Development**

No.	Project Name	Location	Site Area (sq.m.)	Aggregate GFA for Entire Project ⁽²⁾		GFA Under Development (sq.m.)	Land Use Rights Not Yet Obtained ⁽³⁾		Interest Attributable to US ⁽⁴⁾
				GFA Completed but Unsold (sq.m.)	GFA Completed but Unsold (sq.m.)		Planned GFA ⁽³⁾ (sq.m.)	Rights Not Yet Obtained ⁽³⁾ (sq.m.)	
163	Jinan Shimao Skycraper City	Jinan	130,592	842,956	18,294	341,778	98,285	-	100%
164	Suzhou Shimao Bronze Swallow Terrace	Suzhou	153,221	194,905	1,710	121,471	-	-	40%
165	Suzhou Industrial Park Riviera Garden	Suzhou	145,197	204,359	-	152,465	-	-	49%
Total			39,460,801	84,781,718	1,221,083	20,230,414	27,672,392	1,364,500	
	Attributable GFA⁽⁵⁾				1,026,575	15,081,289	19,890,938	1,364,500	

Notes:

- (1) We combine the residential portion and the commercial portion of various projects, i.e. we treat them as one project instead of two, and we may have different calculations for different purposes.
- (2) "Aggregate GFA for Entire Project" includes completed properties sold.
- (3) "Planned GFA" includes "Land Use Rights Not Yet Obtained."
- (4) For projects held by Shanghai Shimao, interest attributable to us is referring to the interest attributable to Shanghai Shimao.
- (5) "Attributable GFA" represents the portion of the GFA which is attributable to us, based on our interest in the relevant projects.

In general, land use rights in the PRC are granted for a term of 70 years for residential properties, 40 years for commercial properties and 50 years for comprehensive use properties. The relevant authorities will not issue a formal land use rights certificate in respect of a piece of land until we (i) pay the land premium in full; (ii) satisfy all conditions under the land grant contract according to applicable laws and regulations, and (iii) pay in full the relevant taxes and fees. As a result, according to the pace of development, the land for a property development may be divided into one or more parcels for which multiple land use rights certificates were granted at different stages of development.

The site area information for an entire project is based on either the relevant land use rights certificates, land grant contracts or tender documents, depending on which documents are available. The aggregate GFA of a project includes saleable and non-saleable GFA, car parking spaces as well as rentable and hotel GFA. "Saleable GFA" represents the GFA of a property which we intend to sell and which does not exceed the multiple of the site area and the maximum permissible plot ratio as specified in the relevant land grant contracts or other approval documents from the local governments relating to the project. "Non-saleable GFA" represents the GFA of a property which is not for sale and largely includes ancillary facilities such as clubhouses and schools. "Rentable GFA" refers to the GFA that is held for investment and is available for rental purposes and "hotel GFA" refers to the GFA of the relevant hotel subject to hotel management.

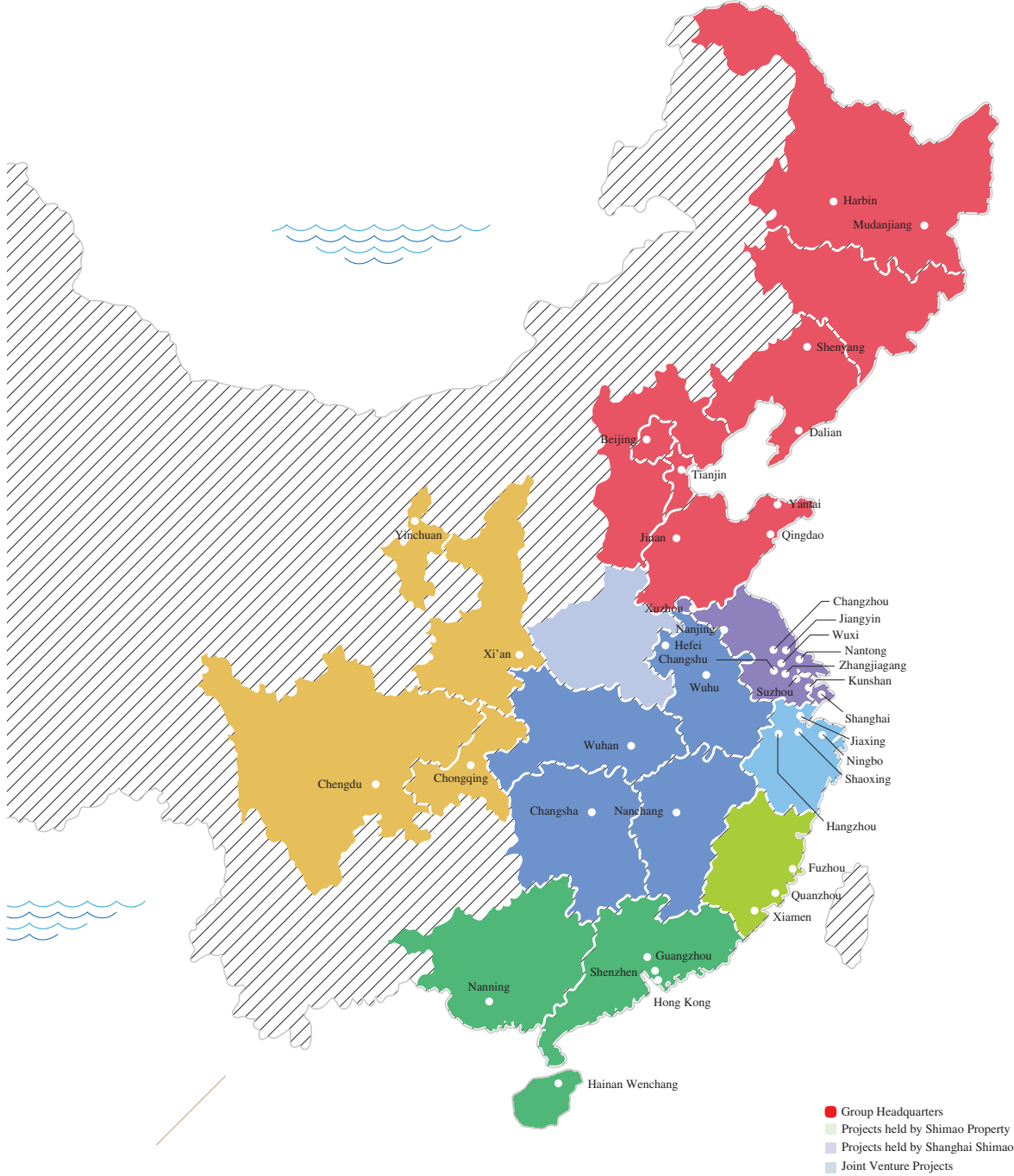
The figures for completed GFA that appear in this offering memorandum are based on figures provided in the relevant government documents. The following information that appear in this offering memorandum are based on our internal records and estimates: (a) figures for GFA under development, GFA held for future development, GFA sold and unsold, saleable GFA, non-saleable GFA, rentable GFA and hotel GFA, and (b) information regarding planned completion date and number of units. The information setting out the construction period for the completed blocks or phases of our projects in this offering memorandum is based on relevant government documents or our own internal records.

Properties are sold when the purchase contract with a customer has been executed and the properties have been delivered to the customer. Properties are pre-sold when the purchase contract has been executed but the properties have not yet been delivered to the customer.

We include in this offering memorandum the project names which we have used, or intend to use, to market our properties. Some of the names for our property developments are pending approvals by the relevant government authorities and may be subject to change.

Geographic Locations of Our Projects

The following map shows the geographic locations of our 165 property development projects as of December 31, 2017:



Zhejiang District

Hangzhou Gate of Zhejiang
Hangzhou Pengbu Project
Hangzhou Shimao Born with Legend
Jiaxing Science and
Technology City Parcel
Ningbo Sunjia
Shaoxing Didang Lake No. 1 Parcel
Shaoxing Renmin Road
Shaoxing Yuecheng District
Qingdian Lake Project

Central China District

Hefei Shimao Jade Mansion
Nanchang Shimao The Grand View
Wuhan Baishazhou Shimao Cloud Value
Wuhan Caidian Parcel (46#, 1-3 parcel,
new parcel)
Wuhan Shimao Carnival
Wuhan Shimao Splendid River
Changsha Shimao Plaza
Hefei Gaoxin Project

Western District

Chengdu Shimao City
Chongqing Runyijiang Zhishang Lianbang
Project
Xi'an Shimao City
Yinchuan Yuehai Project

Shandong District

Jinan Huaiyin District Meili Road Parcel
Jinan Shimao Skyscraper City
Jinan Shimao The Capital of Yuanshan
Jinan Xiaoya Parcel
Jinan Zhangqiu District Nangaobu Parcel
Jinan Zhangqiu District
New No. 4 Middle School Parcel
Qingdao Shimao International Plaza
Qingdao Shimao Noble Town
Qingdao Shimao Noosa Bay

Northern China District

Beijing Tongzhou Xincheng Yangzhuang
No. 12 Project
Beijing Fengtai District Xitieying
Village Parcel
Beijing Shangzhuang Project
Beijing Yidu Qingqing Town
Beijing Yinghai Project
Gu'an Project
Tianjin Eco-City
Tianjin Jinnan Project
Tianjin Wuqing Shimao Luxury Mansion

Central and South District

Nanjing Pukou Royal Real
Nanjing Straits City
Nanjing Jianye Jiangdong No. 5 Project
Nanjing Pukou G24 Parcel
Nanjing Shimao Bund New City
Xuzhou Shimao Dongdu

Jiangsu and Shanghai District

Shanghai Baoshan Luodian Parcel
Shanghai Baoshan Luojing Parcel
Shanghai Songjiang Project
Shanghai Zhoupu Shimao Cloud Atlas
Suzhou Shimao Bronze Swallow Terrace
Suzhou Shimao Shihu Bay
Zhangjiagang Shimao Lake Palace
Kunshan Parcel
Nantong mixed-use Project

Fujian District

Fuzhou Changle Jinfeng Town
No. 3-4 Parcels
Fuzhou City 108 Building Project
Fuzhou Fuqing 2017 Pai-01 and
Pai-03 Parcels
Fuzhou Guihu Longtou Yuan Parcel II
Fuzhou Jin'an District Houlong
Community Parcel II
Fuzhou Jinrong Street Project
Fuzhou Lianpan Shimao Shine City
Fuzhou Licuoshan Parcel
Fuzhou Pingtan Straits Future City
Fuzhou Yongtai Project
Quanzhou Jinjiang Dongshi Parcel
Quanzhou Jinjiang Project
Quanzhou Luojiang No. 1-2 Parcels
Quanzhou Luoyang River Project
Quanzhou Nan'an Downtown Fanhua
Project
Quanzhou Nan'an Guanqiao Aileiyufu
Project
Quanzhou Quangang Project
Quanzhou Shimao Hi Dream
Quanzhou Shimao Zimaoshan
Quanzhou Shishi Shimao Skyscraper City
Xiamen Shimao Shine City
Xiamen Tong'an T2017P01 and T2017P04
Parcels
Xiamen Xiang'an XP13 and XP14 Parcels
Zhangzhou Changtai Longrenguqin
Cultural Village Parcel

Southern China District

Foshan Chan City Green Island Lake Parcel
Foshan Chan City Qicha 003 and 004 Parcels
Guangzhou Finance City
Guangzhou Zengcheng Zhangpo Village
Shenzhen Longgang Project
Shenzhen Qianhai Shimao Financial Centre

HKSAR

Tung Chung Project
Kowloon Tai Wo Ping Project
New Kowloon Inland Lot No. 6549 Project

SELECTED RECENT PROPERTY DEVELOPMENT PROJECTS

Beijing Tongzhou Project (北京通州項目)

Beijing Tongzhou Project comprises high-rise apartments, commercial and office situated in city center of Tongzhou, Beijing. The project has an aggregate site area of approximately 49,759 sq.m., a planned GFA of approximately 303,612 sq.m., including approximately 40,263 sq.m. for commercial. We hold a 50% equity interest in the project.

Beijing Shimaos Salamanca (北京世茂薩拉曼卡)

Beijing Shimaos Salamanca is a residential development situated in Dachang Industrial Park Area, Beijing, with Shouchuang Street on its east, Dafu Road on its south, Fuxi Road on its west and Xinkai Street on its north. The project occupies a site area of approximately 539,442 sq.m. with a total GFA of approximately 1,220,760 sq.m. The project features residential buildings, villas and a clubhouse. We hold a 65% equity interest in the project.

Tianjin Eco-City (天津生態城)

Tianjin Shimaos Ecology City is a residential development situated in the Sino-Singapore Tianjin Eco-city, Binhai New Town, Tianjin. The project occupies a site area of approximately 637,355 sq.m. with a total GFA of approximately 1,196,710 sq.m. The project features villas, townhouses, residential buildings and a Hilton hotel. We hold a 100% equity interest in the project.

Qingdao Shimaos Noble Town (青島公園美地)

Qingdao Shimaos Noble Town is a large scale residential project located in the Qingdao high-tech zone, adjacent to Xiangmao River, Qingdao Middle School and Garden of Eden. The project has an aggregate site area of approximately 931,583 sq.m. and a planned GFA of approximately 1,779,043 sq.m., including approximately 185,944 sq.m. for commercial. The project comprises villas, low-rise and high-rise residential buildings, neighborhood retails and commercial facilities. Qingdao Shimaos Noble Town is also the first residential project in the high-tech zone featuring large scale commercial component, kindergartens, a primary school and a middle school. We hold a 100% equity interest in the project.

Nanjing Shimaos Bund New City (南京世茂外灘新城)

Nanjing Shimaos Bund New City is a large-scale residential, hotel and retail development at the intersection of the Yangtze River and the Qinhuai River in Nanjing. The project stretches for approximately three kilometers along the Yangtze River. The project occupies a total site area of approximately 428,085 sq.m. with a total GFA of 1,660,937 sq.m. The project features 17 high-rise river view residential buildings of 24 to 53 floors, a five-star hotel, eight exotic theme gardens, riverside commercial street, a kindergarten, primary and secondary schools, a luxury club and a supermarket. We hold a 100% equity interest in the project.

Nanjing Yuhuatai (南京雨花臺)

Nanjing Yuhuatai is a residential, office and commercial project located in Yuhua District, Nanjing. The project occupies a site area of approximately 28,971 sq.m., with a total GFA of approximately 190,721 sq.m. Nanjing Yuhuatai consists six residential buildings, a commercial shopping mall, three high-rise office building, four independent residential buildings and one clubhouse. We hold a 75.99% equity interest in the project.

Nanjing Jianye Jiangdong No. 5 (南京建鄴江東5號)

Nanjing Jianye Jiangdong No. 5 is a super high-rise residential, office, apartment and large commercial building project located in Jianye District, Nanjing. The project occupies a site area of approximately 66,999 sq.m., with a total GFA of approximately 737,100 sq.m. Nanjing Jianye Jiangdong No. 5 comprises three residential buildings, a high-rise apartment, a high-rise office building and a business center. We hold a 56.80% equity interest in the project.

Zhangjiagang Shimao Lake Palace (張家港世茂九溪墅)

Zhangjiagang Shimao Lake Palace is a residential development situated in Zhangjiagang, Suzhou, Jiangsu Province. The project occupies a site area of approximately 613,974 sq.m. with a total GFA of approximately 1,212,367 sq.m. The project is expected to feature high-rise residential buildings. We hold a 51% equity interest in the project.

Shaoxing Shimao Works of Time (紹興世茂天越)

Shaoxing Shimao Works of Time is a residential project comprising villa and high-rise located in Shaoxing. The project occupies a site area of approximately 115,152 sq.m. with a total GFA of approximately 282,665 sq.m. We hold a 51% equity interest in the project.

Fuzhou Lianpan Project (福州連潘項目)

Fuzhou Lianpan Project is a high-end high-rise residential development project located in the popular Jin'an District in Fuzhou city. The project features detailed craftsmanship and extensive landscape to provide the residents an enriched living environment. The project occupies a total site area of approximately 72,228 sq.m., with a total GFA of 372,969 sq.m., including approximately 15,000 sq.m. for commercial. We hold a 51% equity interest in the project.

Quanzhou Shishi Shimao Skyscraper City (石獅摩天城)

Quanzhou Shishi Shimao Skyscraper City is a large scale integrated development project located north of the south ring road, next to the state highway and China Garment City. The project is easily reachable from the Jinjiang International Airport and Jinjiang express train station. It occupies a total site area of approximately 1,374,813 sq.m. with a planned total GFA of approximately 3,263,120 sq.m. Quanzhou Shishi Shimao Skyscraper City features quality products including villas, townhouses, residential buildings, duplex apartments and fitted SOHO etc., as well as various landmark amenities including the 110 meters tall Ferris wheel, the 532 meters long glass canopy (the longest glass canopy in the world) and an indoor theme park. We hold a 100% equity interest in the commercial portion of the project.

Xiamen Jimei Project (廈門集美項目)

Xiamen Jimei Project is a mixed-use project with high-end residential, commercial and office, located at the intersection of Xinglinwan Road and Jimei road, close to Huaqiao University and Jiageng Gymnasium, in Xiamen city. The project is facilitated with sky gardens to provide residents unique experience of interacting with the nature and various construction details that makes Xiamen Jimei a landmark in the city. The project occupies a total site area of approximately 113,874 sq.m., with a total GFA of 545,723 sq.m., including approximately 100,000 sq.m. for commercial. We hold a 70% equity interest in the joint venture.

Xiamen Xiang'an Project (廈門翔安項目)

Xiamen Xiang'an Project is a residential project located in Xiang'an District, Xiamen. The project occupies a site area of approximately 90,981 sq.m., with a total GFA of approximately 349,737 sq.m. This project comprises few high-rise building with sea view, and is only 8 km to Xiamen Wanda shopping district with convenient transportation. We hold a 51% equity interest in the project.

Hefei Shimao Jade Mansion (合肥世茂翡翠首府)

Hefei Shimao Jade Mansion is a high-rise residential project located in the Hefei Economic and Technological Development Area. This parcel is adjacent to the Jade Lake, an attractive natural environment, and also next to a subway station and several high schools. The project comprises an aggregate site area of approximately 184,067 sq.m. and a planned GFA of approximately 536,977 sq.m. We hold a 51% equity interest in the project.

Hefei Gaoxin Project (合肥高新項目)

Hefei Gaoxin Project is a high-end villa project located in the traditional luxury neighborhood in the high-tech zone in Hefei and adjacent to a subway station. The project has an aggregate site area of approximately 158,567 sq.m., a planned GFA of approximately 366,685 sq.m. We hold a 51% equity interest in the project.

Wuhan Baishazhou Shimao Cloud Value (武漢白沙洲世茂雲錦)

Wuhan Baishazhou Shimao Cloud Value is a large scale residential project, with approximately 107,600 sq.m. of commercial facilities. The project is conveniently located in the prime area in Hongshan District, within the 3rd ring road in Wuhan, and adjacent to 2 major highways and 2 subway lines. The large scale commercial facility makes the project a new cultural and entertainment hub in Baishazhou. The project occupies a site area of approximately 93,447 sq.m., with a total GFA of 464,140 sq.m. We hold a 52% equity interest in the project.

Wuhan Shimao Splendid River (武漢錦繡長江)

Wuhan Shimao Splendid River is a large-scale residential, hotel, retail and office development at Yingwuzhou Area, Hanyang District, Wuhan City. The project occupies a site area of approximately 574,758 sq.m., with a total GFA of approximately 2,027,901 sq.m. The project features residential buildings, a five-star Hilton hotel, a shopping mall, grade-A offices and various amenities. We hold a 100% equity interest in the project.

Chengdu Longquanyi Project (成都龍泉驛項目)

Chengdu Longquanyi Project is a residential project located in Longquanyi District, Chengdu. The project occupies a site area of approximately 568,357 sq.m., with a total GFA of approximately 2,048,064 sq.m. Chengdu Shimao City is only 16 miles from downtown Tianfu Square. We hold a 100% equity interest in the project.

Shenzhen Qianhai Shimao Financial Centre (深圳前海世茂金融中心)

Shenzhen Qianhai Shimao Financial Centre is an office and commercial project located in Qianhai Free-trade Zone in Shenzhen, next to the inter-changing subway station of line 15 and extension of line 5 (under construction). The project occupies a total site area of approximately 12,747 sq.m. with a total GFA of 202,919 sq.m. Shenzhen Qianhai Shimao Financial Centre comprises a 300 meters tall skyscraper, the tallest building in Qianhai, with unobstructed sea view on three sides and six commercial annex buildings. The main tower also features a 45 degree twisting structure and it will be among the top 10 skyscrapers with twisting structure in the world. We hold a 100% equity interest in the project.

Shenzhen Longgang Project (深圳龍崗項目)

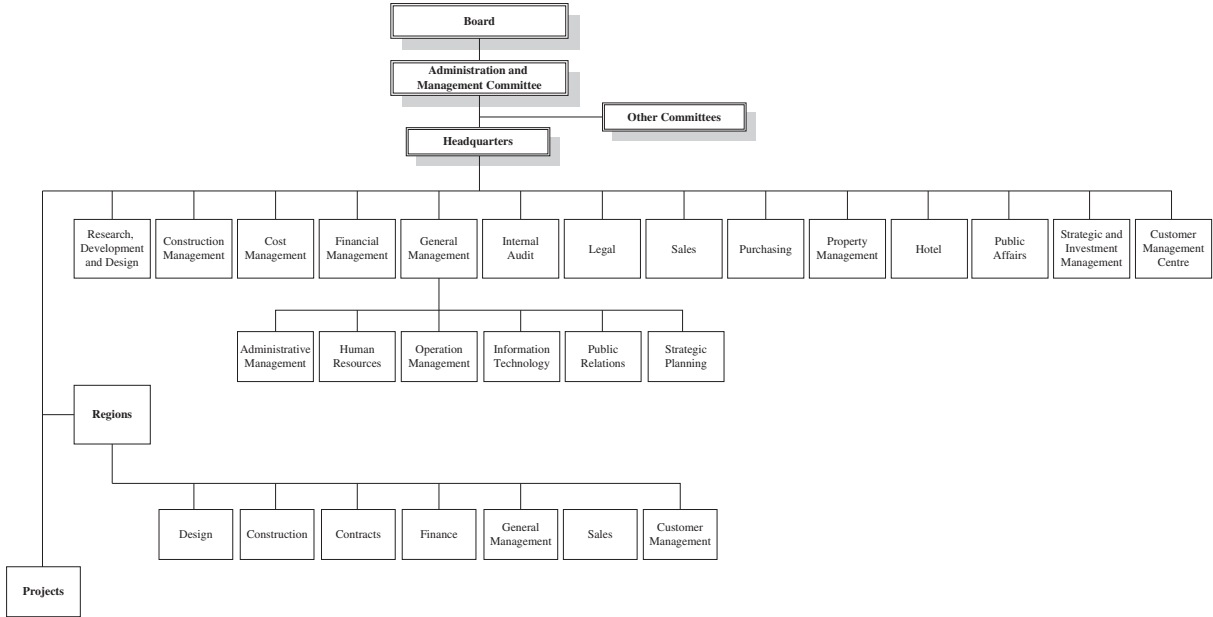
Shenzhen Longgang Project is a large-scale office, hotel, retail and residential development in Longgang District, Shenzhen. The project occupies a site area of approximately 321,946 sq.m., with a total GFA of approximately 1,364,500 sq.m. we hold a 100% equity interest in the project.

PROJECT DEVELOPMENT

Although the nature and sequence of specific planning and execution activities will vary among projects, we have summarized below the core elements of our typical project development process for our residential, retail and hotel properties for sale.

Project Management

We set out below our project management structure:



We establish seven functional departments for each of our projects: design, construction, contracts, finance, general management, sales and customer management. The manager of each functional department at the project level reports directly to the project controller and the financial manager is supervised by the finance director. Each of the controllers, including the project controller, reports directly to the Administration and Management Committee.

Project Selection

In conjunction with our ongoing market and design research, we continuously work to identify and evaluate potential sites for new projects. We assess land parcels for use in potential projects based on our analysis of, among other things:

- size, shape and location of the land parcel;
- local customer demand and expected growth of the city in which the land is located;
- transportation access and infrastructure support;
- project evaluation according to our internal pre-determined criteria;
- development prospects, taking into account social, economic and environmental effects;

- timing and cost of relocating existing occupants;
- applicable zoning regulations and government preferential policies; and
- government development plans for the relevant site and the neighboring area. Once we decide to acquire a piece of land, we prepare a feasibility report for approval by the Board.

Bidding/Tendering for Land

According to the Regulation on the Grant of State-owned Land Use Rights by Way of Tender, Auction and Putting Up for Bidding (招標拍賣掛牌出讓國有土地使用權規定) promulgated on May 9, 2002, and amended on September 28, 2007, all land to be developed for commercial purposes, such as business, tourism, entertainment and commodity residential housing, must be granted by way of tender, auction or bidding. When deciding to whom the land use rights should be granted, the relevant authorities will consider not only the tender price but also the credit history and qualifications of the developer and its tender proposal.

In brief, the procedures to obtain land use rights certificates after July 1, 2002 are as follows:

1. The land administration department of the People’s Government (人民政府) at county or municipal level (the “Grantor”) issues a notice specifying the terms and conditions of the tender, auction or bidding (the “Sale”), including the amount of deposit payable, the initial bidding price of the land and other criteria that will be considered by the Grantor in determining the successful participant. The notice will generally be issued 20 days in advance of the Sale.
2. The Grantor will notify and invite the eligible participants, that is those who comply with the terms and conditions of the notice, to attend the Sale. At the Sale, the eligible participants may make an offer for the land and/or submit a proposal in accordance with the steps prescribed in the notice.
3. The Grantor then issues a letter of confirmation to the successful participant. Deposits paid by an unsuccessful participant will be returned.
4. The successful participant then enters into a State-owned Land Grant Contract (the “Grant Contract”) with the Grantor in accordance with the terms specified in the letter of confirmation. The deposit paid for participating in the Sale will be used to offset part of the land premium.
5. Having fully paid the land premium specified in the Grant Contract, the successful participant registers the land with the Grantor.
6. The People’s Government (人民政府) at or above county level issues a land use rights certificate when the land premium is fully paid.

According to the Notice on the Issues Regarding Tightening the Control and Supervision of Real Estate Land Supply (關於加強房地產用地供應和監管有關問題的通知) issued by the Ministry of State Land and Resources on March 8, 2010, property developers are required to enter into the land grant agreement within ten working days after the land transaction is confirmed. This notice also

stipulated that the minimum down payment of the land premium should be 50% of the total land premium, which must be paid within one month after execution of the land grant agreement, and the remaining balance should be paid in accordance with the agreement, but not later than one year.

Pursuant to the Notice on Further Strengthening of Real Estate Credit Administration (Yin Fa [2003] No. 121) (關於進一步加強房地產信貸業務管理的通知(銀發[2003]121號文)) issued by the PBOC on June 5, 2003, construction loans are linked to the credit-worthiness and financial position of a property developer and the progress of projects. As this notice prohibits commercial banks from advancing loans to fund the payment of land premium, our Directors believe that it has become more difficult for developers in poor standing or a weak financial position to obtain financing for land acquisitions. As a result, we typically target land for large-scale developments which we believe fewer developers have the financial resources and necessary experience to acquire and develop.

On September 21, 2010, the Ministry of Land and Resources and the MOHURD jointly promulgated the Notice on Further Strengthening Control and Regulation of Land and Construction of Property Development (關於進一步加強房地產用地和建設管理調控的通知), which stipulated, among others, that developers and their controlling shareholders are prohibited from participating in land biddings before the rectification of misconducts, including (1) illegal transfer of land use rights; (2) failure to commence required construction within one year from the delivery of land under land grant contracts due to their own business reasons; and (3) non-compliance with the land development requirements specified in land grant contracts.

On May 13, 2011, the Ministry of Land and Resources promulgated Opinions Regarding Upholding and Improvement of the Systems for the Granting of Land through Tender, Auction and Listing-for-sale (關於堅持和完善土地招標拍賣掛牌出讓制度的意見), which impacts policies related to the tender, auction and listing of land in the following aspects:

- (1) restricting the housing prices or land prices and granting land to be used for policy-based housing through listing or auction;
- (2) prescribing a limit on the construction floor area for affordable housing built in conjunction with, and granting the land to be used for, commodity housing through listing or auction; and
- (3) conducting comprehensive assessments of the conditions for development and utilization of land and the price for granting of lands, and determining the person with land use right through tender.

Pre-construction

Once we have obtained the rights to develop a parcel of land, we begin applying for the various permits and licenses that we need in order to begin construction and sale of our properties. If the land use right is acquired by way of grant, the land grant contract will be a precondition to applications for the following permits and licenses:

- land use rights certificate (國有土地使用證). A certification of the right of a party to use a parcel of land. In Shanghai or some other cities, a real estate title certificate (房地產權證) will be issued instead;

- construction land planning permit (建設用地規劃許可證). A permit authorizing a developer to begin the survey, planning and design of a parcel of land;
- construction works planning permit (建設工程規劃許可證). A certificate indicating government approval for a developer's overall planning and design of the project and allowing a developer to apply for a work commencement permit (建設工程施工許可證);
- work commencement permit (建設工程施工許可證). A permit required for commencement of construction; and
- pre-sale permit (預售許可證). A permit authorizing a developer to start the pre-sale of property still under construction.

We have obtained all the required land use rights certificates and permits for our existing properties under development taking into account their respective stages of development at such date.

Financing of Projects

We finance our projects primarily through capital contributions from our shareholders, bank loans and internal cash flows, including proceeds from the pre-sale of our properties and the proceeds from our initial public offering. According to guidelines issued by the CBRC, no loan shall be granted to projects which have not obtained the relevant land use rights certificates, construction land planning permits (建設用地規劃許可證), construction works planning permits (建設工程規劃許可證) and work commencement permits (建設工程施工許可證). The guidelines also stipulate that not less than 35% of the total investment in a property development project must come from a real estate developer's own capital for the development project (項目資本金) in order for banks to extend loans to the real estate developer. Our policy is to finance our property developments with internal resources to the extent practicable so as to reduce the level of external funding required. As of December 31, 2017, our outstanding borrowings amounted to RMB87,504.7 million (US\$13,449.2 million), of which RMB14,295.8 million (US\$2,197.2 million) bank borrowings, borrowings from other financial institutions, short-term bonds, medium-term notes and domestic corporate bonds and RMB3,899.4 million (US\$599.3 million) senior notes were due within one year, RMB46,285.4 million (US\$7,113.9 million) bank borrowings, borrowings from other financial institutions, medium-term notes, domestic corporate bonds and long-term bonds and RMB13,637.5 million (US\$2,096.0 million) senior notes were due within one and five years, and RMB9,386.6 million (US\$1,442.7 million) bank borrowings and borrowings from other financial institutions were due after five years.

Project Design

We contract out the project design work for our property developments to reputable architectural and interior design firms (the “External Team”) which are selected through a tender process. Our Works and Bidding/Tendering Management Committee is responsible for organizing and monitoring the tender process for major contracts (tenders with a value of over RMB5 million) or commercial tenders of similar value. The committee also manages the selection process for the tenders. Our in-house design department then works with the selected External Team to determine the design of a particular property development by taking into account certain factors such as:

- proposed type of development;
- target market;
- size and surrounding area of the site; and
- advice provided by our sales and marketing department on the expectations of our target market.

Once the master design concept for a project is established, our in-house design department will collaborate with the External Team to transform the concept into a more detailed design drawing (the “Design Development Document”). This is a crucial part of the design process. The Design Development Document must be approved by the relevant PRC governmental authorities. Once approved, the Design Development Document then becomes the basis for the detailed design and construction of the project.

Our design department also works with the project engineers and our building material procurement team to develop and determine the appropriate building methods and materials so that project costs can be controlled and our developed properties are more likely to be accepted by the targeted markets.

During the construction phase, our design department works closely together with the contractors, the project engineers and the External Team to manage and oversee the project’s progress. In addition to focusing on the functional and aesthetic aspects of a project, our design team also provides constant site supervision and conducts progress audits in order to ensure that construction progresses according to the design plan and schedule.

Resettlement

Resettlement in respect of most of our project developments (except for our Shanghai Shimao Riviera Garden) is carried out by the relevant local governments pursuant to specified time schedules for the delivery of the land to us as agreed and reflected in our land grant contracts. Upon delivery of land (and the accompanying land use rights certificates) to us, we will pay the corresponding portion of the land premium according to the relevant land grant contract but there are no additional resettlement costs that will be incurred by us in relation to these projects.

Construction

Our projects usually proceed phase by phase or block by block as part of our financial management and marketing strategy. Normally, different general contractors are selected to carry out construction of different phases or blocks in a development, a practice which we consider enables us to better control construction quality, time and cost.

According to the PRC Tender Law (中華人民共和國招標投標法), which became effective on January 1, 2000, and the Rules on the Tender Scopes and Criteria for Construction Projects (工程建設項目招標範圍程規模標準規定), the selection of construction companies with respect to certain construction projects must be carried out using a bidding process. Such bidding process must be carried out for commodity housing projects which have an estimated total investment amount of RMB30 million or more, or which have any of the following contracts: (1) a single construction contract with an estimated contract price of RMB2 million or more; (2) a single contract for the purchase of key equipment and material with an estimated contract price of RMB1 million or more; or (iii) a single contract for the outsourcing of surveying, design, supervision and other services with an estimated contract price of RMB500,000.

The Group has selected its construction companies in accordance with a strict selection process as detailed below:

- Our project controller and consultants, in conjunction with our contracts department and the relevant supporting technical team, recommend a list of contractors to our Group's senior management.
- Such recommended contractors are then invited to provide information in relation to, for example, their previous experience, financial status and size and composition of their project management team.
- Based on the information provided by the contractors, our technical, design and contract departments then prepare a shortlist of contractors to be invited to submit tenders ("Invitees").
- We issue a tender notice to the Invitees.
- Upon receipt of the tender documents submitted by the Invitees, our engineers, quantity surveyors and the contracts department, together with relevant consultants in certain cases (together, the "Tender Team") will analyze the tender documents and prepare a report.
- The Tender Team conducts interviews with the Invitees to discuss in detail the scope of work required for the project and the specifications.
- The project manager recommends a candidate for the senior management's approval based on the Tender Team's analysis report and interviews.

Our construction contracts generally provide for progressive monthly payments during construction until a specified maximum percentage of the total contract sum is paid. The remaining balance, except for 5% of the contract sum which we withhold for two to three years from completion

to apply against any expenses incurred as a result of any construction defects, is payable upon satisfactory completion of work. Our standard construction contract also includes express terms on construction schedule, cost and work quality. Under the standard construction contract, the general contractors are required to indemnify us for any losses we incur as a result of construction defects or delay and, in the latter case, the general contractors are required to pay default interest on a daily basis. We also request the general contractors to provide performance bonds in a sum equal to 10% of the construction cost as stated in the construction contract.

Quality Control and Construction Supervision

We place a strong emphasis on quality control to ensure that our properties comply with relevant regulations and are of high quality. These procedures are strictly followed by our functional departments, project companies and by our construction supervisors. As part of our quality control procedures, it is our policy to only contract with reputable design and construction companies.

We purchase major materials, such as doors, windows, sanitary fittings and kitchen cabinets directly, while the general contractors procure the more basic building materials, such as cement and steel. With respect to the materials we purchased, particularly those that are in large volumes, we seek to utilize our centralized procurement function to strengthen our negotiating position with suppliers of these materials. The general contractors procure most of the equipment necessary for each project in accordance with our specifications. We do not own any construction equipment and do not maintain any inventory of building materials. To maintain quality control, we employ very strict procedures for selection, inspection and testing of materials. Our project management teams inspect all equipment and materials to ensure compliance with the contractual specifications before accepting the materials on site and approving payment. We reject materials which are below standard or that do not comply with our specifications and return them to the suppliers. To ensure quality and monitor the progress and workmanship of construction, each project has its own on-site project management team, which comprises qualified engineers led by our project controller. Our project management teams provide on-site supervision of the project. We also engage independent quality supervisory companies to conduct quality and safety control checks on all building materials and workmanship on site.

Our construction controller is responsible for the supervision of the construction of our properties and ensuring that our properties meet a specified standard upon completion. In addition, prior to handing over a property to our customers, our sales and customer service departments together with our engineers and the relevant property management partners will inspect the property.

Pre-sale

According to the Urban Real Property Law (中華人民共和國城市房地產管理法) and the Administrative Measures governing the Pre-sale of Urban Real Estate (城市商品房預售管理辦法), the following conditions must be fulfilled before the pre-sale of a particular property can commence:

- the land premium must be paid in full and the land use rights certificate must have been obtained;
- the construction works planning permit and the work commencement permit must have been obtained;

- the funds contributed to the development of the project shall amount to at least 25% of the total amount to be invested in the project and the project progress and the date of completion of the project for use must have been ascertained; and
- the pre-sale approval must have been obtained.

The Ministry of Construction and the NDRC jointly issued the Notice of Further Rectifying the Trade Order of Real Estate Transactions (關於進一步整頓規範房地產交易秩序的通知) on July 6, 2006, which provides that real estate development enterprises shall commence the sale of commodity residential properties within 10 days after obtaining the pre-sale permit.

According to the Notice on Further Enhancing the Supervision of the Real Estate Market and Improving the Pre-sale System of Commodity Housing (關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知) issued by the MOHURD on April 13, 2010, the property developers are not allowed to charge the purchasers any deposit, pre-payment or payment of the similar nature prior to obtaining the pre-sale permit.

In addition, the Shanghai governmental authority promulgated a policy on October 7, 2010 to put more stringent requirements on the pre-sale of projects, such as: (i) commercial housing projects which obtain a construction work commencement permit after July 1, 2010 shall not be permitted to pre-sell until the main structural component of the building is completed and approved; (ii) the scope under a construction works planning permit and a work commencement permit, and the pre-sale scope of commercial housing shall not be less than 30,000 sq.m.; and (iii) projects of less than 30,000 sq.m. shall apply for and obtain a construction works planning permit, a work commencement permit and a pre-sale permit concurrently. On November 4, 2010, the Beijing government promulgated a notice which provided that, when applying for a pre-sale permit for commercial housing, developers shall (i) provide pre-sale programs with details including, among others, construction schedules, the pre-sale plans of the relevant projects, the portion of commercial housing to be retained by the developer and other pre-sale details; (ii) after obtaining the pre-sale permit, arrange for sales to proceed in strict accordance with the pre-sale programs, which shall also be posted publicly at the sales offices; and (iii) not change the pre-sale programs in principle.

We have complied with the relevant statutory requirements for pre-sale in all material respects.

Sales and Marketing

Our sales and marketing teams are responsible for conducting detailed analyses of market conditions, preparing promotional materials, conducting general promotional campaigns, recommending unit prices and pricing-related policies for our projects and coordinating and monitoring our relationship with the media. Our property sales planning is typically divided into three stages, as set out below:

- Planning stage – During the construction of our properties, our sales and planning and development departments will establish a sales team, train the team, and choose the agents to represent us in the relevant overseas cities. At this stage, our sales and planning and development departments will formulate a detailed sales plan including estimated selling prices, the selling period, number of units for sale and expense budget and refine our sales plans (the “Sales Plan”) previously prepared at the project selection stage;

- Sales stage – Our management committee together with our senior management will confirm the Sales Plan and the relevant functional departments will implement the Sales Plan. We commence pre-sales after we obtain the relevant pre-sale permits; and
- Review stage – On a regular basis, we review our sales performance by comparing our actual sales results against the Sales Plan. Where there are significant differences, our management committee will investigate the reasons and put in place remedial plans where appropriate.

We also undertake both direct and indirect marketing efforts such as advertising, participating in international real estate exhibitions and maintaining loyalty clubs to promote the “Shimao” brand. Through these loyalty clubs, we maintain close contact with our customers and encourage them to actively participate in referring potential purchasers to us. We work with companies which have reputable brands to hold social events for our customers. In respect of our hotels, we partner with the Hyatt Group, the Starwood Group, the InterContinental Group and Hilton Group to increase our access to an international customer network so as to broaden our customer base and further increase the international recognition of our “Shimao” brand.

We do not provide property sales agency services. We engage international property agents to promote our properties in Hong Kong, Taiwan, Southeast Asia, Japan, the United States, Canada, Australia and Europe.

In line with the market practice in the PRC, we usually commence pre-sales before completion of the entire project. Our pre-sales typically occur phase by phase and we use the pre-sale proceeds to fund a significant portion of the project construction cost for the relevant project.

Handover

In relation to our properties for sale, after construction is completed, we will need to obtain a completion and acceptance certificate (竣工驗收證明) from the relevant local governments before we are able to hand over the properties to our customers. In Shanghai, there is an additional requirement for us to obtain a delivery certificate (交付使用許可證) in respect of our completed residential properties before handover can be effected. As required by the applicable regulations, we provide, without charge, both the “Internal Furnishing Quality Control Certificate” (室內裝修質量合格證書) and the “Air Quality Control Certificate” (室內空氣質量檢驗合格證書) to the owners of our residential units in Shanghai upon handover. The initial owners also receive a residence quality warranty against certain defects and a homeowner’s guidebook from us. We believe such certificates and warranty evidence our construction standards and have contributed to our high customer satisfaction rate.

Payment and End-user Financing

Purchasers of our properties can choose between payment by installments or lump sum payments. Where a purchaser chooses to pay by installments, at least 30% of the purchase price is typically required to be made as a down payment when the sales contract is entered into. Mortgages will be arranged for the remaining purchase price and the full purchase price must be paid within six months from the date of the sales contract or by the delivery of the unit whichever is earlier. In line with market practice, we have arrangements with various banks for the provision of mortgage

facilities to our purchasers and we provide guarantees for these mortgages until completion of construction and the relevant property ownership certificates and certificates of other interests in the property are submitted to the relevant banks.

In line with industry practice, we do not conduct independent credit checks on our purchasers but rely on credit checks conducted by the relevant bank. To date, there have only been a few cases of default on residential mortgages guaranteed by us. We were subsequently involved in legal proceedings with respect to these defaults and successfully recovered our claims. As a result, we did not suffer any financial loss from these defaults. For more details on the risks associated with guaranteeing mortgages, please refer to the section headed “Risk Factors – Risk Relating to Our Business – We guarantee mortgage loans of our customers and may be liable to the mortgage banks if our customers default on their mortgage payments”.

After-sale Services

We have a specialized customer service team designated to provide comprehensive after-sale services to our customers, which include assistance in financing applications, title registration and obtaining relevant title certificates. We also engage international property management partners to provide a high standard of property management and after-sale services to our customers. In addition, we have engaged Shanghai Shimao Property Services (Nanjing) Co., Ltd., in which we hold a 100% interest, to provide property management services to Kunshan Shimao Butterfly Bay and Changshu Shimao The Center.

OUR HOTELS AND INVESTMENT PROPERTIES

Overview

We focus on large-scale property development projects, many of which have a combination of residential, hotels, retail and office properties. All of our residential properties are held for sale, while our hotels and some of our retail and office properties are held for investment purposes. In recent years, we have expanded into the hotel, retail and office property sectors.

Hotels

We developed and hold five hotels in Shanghai, namely, the Yuluxe Sheshan, A Tribute Portfolio Hotel, Shanghai, MiniMax Hotel Shanghai, Songjiang, MiniMax Premier Hotel Shanghai Hongqiao, the Le Royal Méridien Shanghai and the Hyatt on the Bund Shanghai, two in Shaoxing, namely the Shaoxing Shimao Holiday Inn and Crowne Plaza Shaoxing, one in Mudanjiang, namely the Mudanjiang Holiday Inn, one in Nanjing, namely the Hilton Nanjing Riverside, one in Wuhu, namely Doubletree by Hilton Wuhu, one in Taizhou, namely Yuluxe Hotel Taizhou, one in Tianjin, namely Hilton Tianjin Eco-City, two in Ningbo, namely DoubleTree by Hilton Ningbo Chunxiao and DoubleTree by Hilton Ningbo Beilun, one in Wuhan, namely Hilton Wuhan Riverside, two in Xiamen, namely Conrad Xiamen and MiniMax Hotel Xiamen Central and one in Fuzhou, namely the InterContinental Fuzhou, which are operated by our hotel operating management partners. We are also developing or planning to develop a number of other hotels in Shanghai, Xuzhou, Taizhou, Shaoxing, Ningbo, Yantai, Tianjin, Wuhan, Shenyang, Changsha, Fuzhou, Jinjiang and Xiamen. We intend to hold these hotels for investment purposes when they are completed. We have already entered into management contracts with the InterContinental and Hilton Groups with respect to a

number of these hotels. We plan to enter into similar management contracts for some of our other hotels that are under development or planning. In return for managing and operating these hotels, we agree to pay our hotel operating management partners a basic management fee based on a percentage of the relevant hotel's total revenue, and an incentive fee with reference to the relevant hotel's gross operating profit. In addition, we have established our own hotel management company to manage some of our other hotels under development or currently being planned.

In October 2010 and April 2011, we entered into two agreements with Hilton Worldwide in Shanghai covering global strategic hotel management cooperation. Under the agreements, we would cooperate with Hilton Worldwide in the development of the "Hilton," "Double Tree by Hilton" and "Conrad" brands at hotels in more than ten tier-one and tier-two cities in China, including Tianjin, Nanjing, Wuhan, Shenyang, Yantai, Wuxi, Xiamen, Changsha and Ningbo. Hilton Nanjing Riverside opened in December 2011, Doubletree by Hilton Wuhu opened in November 2013, Hilton Tianjin Eco-City opened in April 2015, DoubleTree by Hilton Ningbo Chunxiao opened in December 2015, Hilton Wuhan Riverside opened in July 2016, Conrad Xiamen opened in August 2016 and DoubleTree by Hilton Ningbo Beilun opened in December 2016.

In October 2012, we registered a series of "Yu Hotels" trademarks in the PRC and intend to manage some of our hotels under development or planning through our own hotel management company under "Yu Hotels" brand name.

As of December 31, 2015, 2016 and 2017 we had 5,100, 5,700 and 6,487 guest rooms, respectively. As of December 31, 2017, the fair value of our hotels was RMB37.2 billion (US\$5.9 billion).

The table below sets out certain information relating to our hotels which had been completed, as of December 31, 2017:

	<u>Hotel GFA</u> <i>(sq.m.)</i>	<u>Number of rooms</u>	<u>Ownership interest</u>	<u>Management partner</u>	<u>Date of commencement</u>	<u>Term under the operating management agreement</u>
The Yuluxe A Tribute Portfolio Hotel, Shanghai	69,328	325	100%	Marriott	November 2005	10 years of management starting from April 1, 2016, till December 31, 2025, and during the period, if both the management company and the owner agree, management can be changed to franchise
Le Royal Méridien Shanghai	113,603	770	100%	Marriott	September 2006	10 years from the date of full opening, renewable for a further five years
Hyatt on the Bund Shanghai	100,972	631	100%	Hyatt	June 2007	20 years from the date of full opening

	Hotel GFA <i>(sq.m.)</i>	Number of rooms	Ownership interest	Management partner	Date of commencement	Term under the operating management agreement
Mudanjiang Holiday Inn	30,042	265	95%	InterContinental	December 2010	10 years from the date of full opening, renewable for a further 10 years
Shaoxing Shimao Holiday Inn	30,108	284	59%	InterContinental	September 2011	10 years from the date of full opening, renewable for a further 10 years
Hilton Nanjing Riverside	77,296	411	79%	Hilton	December 2011	15 years from the date of full opening, renewable for a further 10 years
Yuluxe Hotel Taizhou	43,000	262	100%	Shimao Xida Hotel Group	August 2014	20 years from the date of July 1, 2017
MiniMax Hotel Shanghai Songjiang	8,479	147	51%	Shimao Xida Hotel Group	December 2014	–
Hilton Tianjin Eco-City	76,712	301	100%	Hilton	April 2015	15 years from the date of full opening, renewable for a further 10 years
DoubleTree by Hilton Ningbo Chunxiao	59,462	220	100%	Hilton	December 2015	15 years from the date of full opening, renewable for a further 10 years
MiniMax Premier Hotel Shanghai Hongqiao	21,325	292	51%	Shimao Xida Hotel Group	December 2015	–
DoubleTree by Hilton Wuhu	47,295	442	100%	Hilton	October 2013	15 years from the date of full opening, renewable for a further 10 years
InterContinental Fuzhou	65,474	318	100%	InterContinental	January 2014	10 years from the date of full opening, renewable for a further 10 years
Crowne Plaza Shaoxing	78,988	453	100%	InterContinental	March 2014	10 years from the date of full opening, renewable for a further 10 years

	<u>Hotel GFA</u> <i>(sq.m.)</i>	<u>Number of rooms</u>	<u>Ownership interest</u>	<u>Management partner</u>	<u>Date of commencement</u>	<u>Term under the operating management agreement</u>
Hilton Wuhan Riverside	76,576	338	100%	Hilton	July 2016	15 years from the date of full opening, renewable for a further 10 years
Conrad Xiamen	56,686	241	49%	Hilton	August 2016	15 years from the date of full opening, renewable for a further 10 years
DoubleTree by Hilton Ningbo Beilun	62,041	380	100%	Hilton	December 2016	15 years from the date of full opening, renewable for a further 10 years
MiniMax Hotel Xiamen Central	5,772	74	51%	Shimao Xida Hotel Group	February 2017	–
Hilton Yantai	51,484	252	100%	Hilton	December 2017	15 years from the date of full opening, renewable for a further 10 years
Hilton Shenyang	54,221	332	100%	Hilton	August 2017	15 years from the date of full opening, renewable for a further 10 years
Dalian Yulong Hotel	13,994	68	100%	Shimao Xida Hotel Group	August 2016	20 years from the date of December 15, 2015
MiniMax Hotel Shishi	6,588	106	41%	Shimao Xida Hotel Group	January 2018	15 years from the date of full opening, renewable for a further 5 years
MiniMax Premier Hotel Chengdu	11,072	199	51%	Shimao Xida Hotel Group	August 2017	–

The table below sets out certain information relating to our hotels which were under development or planning as of December 31, 2017:

	Estimated Date of Completion	Estimated Hotel GFA <i>(sq.m.)</i>	Estimated Number of Rooms	Ownership Interest	Management Partner
InterContinental Shanghai Wonderland	2018	62,172	338	58.92%	InterContinental
Yuluxe Hotel Chengdu	2018	40,786	294	100%	Shimao Xida Hotel Group
Le Méridien Hanzhou, Binjiang	2018	37,097	202	51%	Marriott
Sheraton & Four Points Hong Kong Tung Chung Hotel	2019	56,715	1,263	100%	Marriott
InterContinental Residences Nanjing Hexi	2023	19,300	180	56.8%	InterContinental
Yu Resort Mount Wuyi	2020	25,282	199	100%	Shimao Xida Hotel Group
Hualuxe Resort Fuzhou Guling	2020	23,516	160	100%	InterContinental
518 Building Fuzhou	2024	42,000	250	49%	To be determined
Longgang Project Shenzhen	2024	50,000	280	49%	To be determined

Our hotel department is responsible for formulating the strategies for hotel operations. For certain of our hotels, in particular the high-end hotels, our strategy is to enter into hotel management agreements with international hotel operators. In selecting our hotel management partners, we consider their relevant experience, reputation and track records. We believe that by partnering with international hotel operators, we are able to enhance the image of our hotels, and benefit from our partners' expertise in hotel management and their global marketing, advertising and procurement capabilities. The hotel management partners are responsible for managing the daily operation of the hotels in all aspects, including recruiting and training of staff members and setting room rates and other charges and the strategies of the hotels. Our target customers are mid-to high-end international and domestic travelers. For some hotels in second-tier cities, we plan to manage them through our own hotel management company.

We expect to continue to receive recurring income stream from the operation of the hotels, including income derived from room rent, food and beverage sales and provision of other goods and services in our hotels.

Investment Properties

As of December 31, 2017, we had a total GFA of approximately 1,257,852 sq.m. of properties available for rent, of which substantially all had been rented out. The table below sets out certain information relating to our completed investment properties, including those that have been reclassified as investment properties, as of December 31, 2017:

Property	Location	Total rentable GFA <i>(sq.m.)</i>	Date of completion	Ownership interest attributable to us
Shanghai Shimao International Plaza	Shanghai	71,239	May 2007	100.00%
Changshu Shimao The Centre	Changshu	43,357	January 2009	58.92%
Beijing Shimao Tower	Beijing	70,175	July 2009	58.92%
Wuhu Shimao Riviera Garden (Commercial)	Wuhu	19,963	September 2009	58.92%
Shanghai Shimao Shangdu	Shanghai	9,584	November 2010	58.92%
Shaoxing Shimao Dear Town	Shaoxing	181,605	May 2010	100.00%
Suzhou Shimao Canal Scene	Suzhou	49,993	June 2010	58.92%
Kunshan Shimao Plaza	Kunshan	88,249	April 2012	58.92%
Xuzhou Shimao Dongdu (Commercial)	Xuzhou	59,471	January 2012	58.92%
Jinan Shimao International Plaza	Jinan	280,641	May 2014	58.92%
Nanjing Straits City (Commercial)	Nanjing	65,719	December 2014	100.00%
Xiamen Shimao Strait Twin Towers	Xiamen	37,261	January 2017	79.05%
Quanzhou Shishi Shimao Skyscraper City	Shishi	156,335	January 2017	55.67%
Ningbo Shimao World Gulf	Ningbo	75,113	October 2017	100.00%
Total		1,257,852		

The table below sets out certain information relating to our investment properties under development and held for future development as of December 31, 2017:

Property	Location	Total planned rentable GFA	Estimated date of completion	Ownership interest attributable to Us (sq.m.)
Nanjing Shimao SGC (Commercial)	Nanjing	150,000	2019	56.80%
Nanjing Shimao SGC (Office)	Nanjing	152,000	2020	56.80%
Shenzhen Shimao Financial Centre	Shenzhen	83,443	2019	30.05%
Shanghai Shimao Binjiang Building	Shanghai	45,698	2018	100.00%
Xiamen Shimao Shine City	Xiamen	145,000	Pending	48.80%
Changsha Shimao Plaza	Changsha	21,800	2020	49.00%
Wuhan Shimao Skyscraper City	Wuhan	65,548	Pending	58.92%
Qingdao Chengyang Shimao 52+	Qingdao	64,382	Pending	58.92%
Chengdu Shimao Plaza	Chengdu	123,000	2020	100.00%
Nanjing Straits City (Phase II)	Nanjing	51,114	2018	100.00%
Nanjing Shimao Wisdom Park	Nanjing	76,185	2020	55.04%
Chengdu Shimao Mengzhuiwan Plaza	Chengdu	59,025	2020	100.00%
Total		1,037,195		

We have a leasing department which is responsible for formulating the strategies for our rental properties. Our current strategy is to enter into long-term tenancy agreements with anchor retail tenants and operation management agreements with retail property operators for the entire retail properties which we hold for investment purposes. In selecting our anchor retail tenants or retail property operators, we consider their relevant experience, reputation and track records. We believe that anchor retail tenants and retail property operators are able to provide expertise in retail management, promote the image of our rental properties and also reduce the administrative responsibility of having to liaise with individual tenants directly. The anchor retail tenants and retail property operators are responsible for all aspects of managing the daily operation of the shopping mall, including recruiting and training staff for the shopping mall and coordinating the leasing and subleasing of business. Our target tenants and subtenants are mid to high-end retail stores, restaurants and supermarkets.

In addition, we have entered into strategic cooperation partnership agreements with over 200 strategic retail partners including McDonalds, Starbucks, Watsons, Auchan, Parkson, Haoledi KTV and Esprit in relation to our rental properties, under which these domestic and international retailers from various segments rent our properties for a specified period, generally from three years to 20 years with an option to extend upon mutual consent. In return, we develop properties which meet the requirements of our strategic retail partners. We intend to enter into similar strategic cooperation partnership agreements, in addition to long-term tenancy agreements with anchor retail tenants and operation management agreements with retail property operators, prior to or upon the completion of our other retail properties which are to be held for investment purposes.

INFORMATION MANAGEMENT

In 2013, we adopted an information technology system, namely, the SAP system, to implement visual process management and control over our projects, which has been officially launched throughout the Group. The SAP system warns deficiencies and vulnerabilities in an enterprise's internal control. Since guidelines for different operational processes are automatically generated by the system, we believe we will be able to regulate and standardize our operations to ensure full control of our projects. The SAP system will also bring a robust integrated data platform since data that was previously scattered across various departments and management levels will be centralized, extracted and analyzed in a unified manner by the central processor, providing us with accurate information to support our strategic decision-making.

COMPETITION

The market for real estate development in China has evolved significantly over the past decade. In addition to Chinese real estate developers, a number of overseas real estate developers are active in China. In April 2004, the PRC government announced a six month moratorium on land auctions. In June 2004, the PRC government further issued policies to reduce the number of property projects that involve redevelopment or relocation of existing residents. These policies further increased competition among real estate developers as the amount of land available for property development was reduced. See "Risk Factors – Risks Relating to Our Business – Increasing competition in the PRC, particularly in the Yangtze River Delta and the Bohai Rim, may adversely affect our business and financial condition".

Our existing and potential competitors include major domestic State-owned and private developers and foreign real estate developers (including leading developers listed in Hong Kong) who focus on the high-end and/or upper mid-tier property markets in China. We believe that through our experience in developing large scale, high quality properties and our in-depth understanding of the Chinese real estate market, we will be able to react more quickly when competing with these property developers to identify and secure desirable opportunities.

INTELLECTUAL PROPERTY

We place significant emphasis on developing our brand image and resort to extensive trademark registrations to protect all aspects of our brand image. As of December 31, 2017, we had registered 1,475 trademarks in the PRC, six trademarks in the United Kingdom and 40 trademarks in Hong Kong. "Shimao" and "世茂" are our primary trademarks. We have also registered a device with respect to such primary trademarks.

Under Hong Kong and PRC law, a registered trademark owner has exclusive rights in the registered trademark. Any unauthorized use of a registered trademark (unless such use constitutes "fair use" as defined by law), will constitute infringement of the trademark owner's exclusive right. The licensing agreements to be entered into pursuant to a trademark framework agreement will be governed by Hong Kong or PRC law, and the courts of Hong Kong or the PRC (as applicable) will have exclusive jurisdiction to settle any disputes arising under these agreements.

INSURANCE

With respect to our properties under development over which our lending banks have security interests, we obtained insurance coverage in accordance with the requirements of the loan documents. We do not, however, maintain property damage or third-party liability insurance for our other property developments. Under PRC law, these types of insurance are not mandatory. With respect to our completed residential properties managed by our property management companies, we maintain insurance to cover losses arising from fire, asset damages and third party liabilities until the properties are sold and delivered to our customers. Our completed residential properties managed by third parties are typically insured by such third party property management companies, and we do not maintain insurance for such properties. With respect to our completed investment properties and hotels, we maintain a variety of insurance policies, including fire insurance, all-risk insurance and asset insurance. We also maintain business disruption insurance policies for our owned shopping malls. In addition, we maintain on a voluntary basis personal accidental insurance and supplementary commercial medical insurance for our employees. We may re-evaluate the risk profile of the property markets and adjust our insurance practice from time to time.

EMPLOYEES

As of December 31, 2017, we had 8,394 full time employees. The remuneration package of our employees includes salary, bonus and other cash subsidies. In general, we determine employee salaries based on each employee's qualification, position and seniority. We have designed an annual review system to assess the performance of our employees, which forms the basis of our determination on salary raise, bonus and promotion. We are subject to social insurance contribution plans organized by the PRC local governments.

In accordance with the relevant national and local labor and social welfare laws and regulations, we are required to pay on behalf of our employees monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance and housing reserve fund. We believe the salaries and benefits that our employees receive are competitive in comparison with market rates.

Our employees do not negotiate their terms of employment through any labor union or by way of collective bargaining agreements. We believe our relationship with our employees is good. We have not experienced significant labor disputes which adversely affected or are likely to have an adverse effect on our business operations.

ENVIRONMENTAL MATTERS

We are subject to PRC national environmental laws and regulations as well as environmental regulations promulgated by local governments. These include regulations relating to air pollution, noise emissions and water and waste discharge. Please refer to the section headed "Regulation-Environment Protection" for details of these environmental laws and regulations. Each of our property developments is required to undergo environmental assessments and submit the related environmental impact assessment document to the relevant government authorities for approval prior to the commencement of property development. For certain of our projects, we did not submit the environmental impact assessment documents although we have obtained the relevant government approvals to commence the development of these projects. See "Risk Factors – Risks Relating to Our Business – Potential liability for environmental problems could result in substantial costs." On the

completion of each property development, the relevant government authorities inspect the site to ensure that applicable environmental standards have been complied with, and the resulting report is then presented together with other specified documents to the local construction administration authorities for their record. We have not experienced any problems in the inspections conducted by the relevant authorities upon handover of our properties.

LEGAL PROCEEDINGS

We have been involved in disputes with various parties involved in the construction, development and the sale of our properties, including contractors, suppliers, construction workers, joint venture partners and property purchasers, in the ordinary course of business. We are not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to us to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

REGULATION

The following discussion summarizes the principal laws, regulations, policies and administrative directives to which we are subject.

THE PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution and is made up of written laws, administrative regulations, local regulations, autonomous regulations, separate regulations, rules of the ministries and commissions under the State Council, rules of the local governments, laws of Special Administrative Regions and laws resulting from international treaties entered into by the PRC government. Court verdicts do not constitute binding precedents. However, they are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC, or 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, criminal and other matters. The Standing Committee of the NPC is empowered 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 regulations. The ministries and commissions under the State Council are also vested with the power to issue rules within the jurisdiction of their respective departments. All administrative regulations and rules 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 and the Standing Committee of the NPC.

At the regional level, the people's congresses and their respective standing committees of the provinces, autonomous regions and municipalities under direct administration of the PRC central government may enact local regulations and the people's governments of the provinces, autonomous regions, municipalities and comparatively large cities may promulgate rules applicable to their own administrative areas. These local regulations and rules must be consistent with the PRC Constitution, the national laws and the administrative regulations promulgated by the State Council.

The State Council may also enact or issue administrative regulations in new areas of the law for experimental purposes. 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 vests the power to interpret laws in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (全國人民代表大會常務委員會關於加強法律解釋工作的決議) passed in June 1981, the Supreme People's Court has the power to give general interpretation on the application of laws in judicial proceedings. The State Council and its ministries and commissions are also vested with the power to interpret administrative regulations and rules that they have promulgated. At the regional level, the power to interpret local regulations is vested in the regional legislative bodies which promulgate such regulations.

THE PRC JUDICIAL SYSTEM

Under the PRC Constitution and the Law of Organization of the People's Courts (中華人民共和國人民法院組織法) passed on July 1, 1979 and amended on October 31, 2006, the judicial system is made up of the Supreme People's Court, the local courts, military courts and other special courts. The local courts are comprised of the primary courts, the intermediate courts and the higher courts. The higher courts supervise the primary and intermediate courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of courts of the lower levels. The Supreme People's Court is the highest judicial body in China. It supervises the administration of justice by all other courts.

The civil trial system of PRC follows a two-tier appellate system. A party may appeal against a civil judgment or order of a local court to the court at the next higher level. Second judgments or orders given at the next higher level are final. First civil judgments or orders of the Supreme People's Court are also final.

The Civil Procedure Law of the PRC (中華人民共和國民事訴訟法) adopted in April 1991 and amended on October 28, 2007 and August 31, 2012, 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 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, the place of execution or implementation of the contract or the object of the action.

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 for enforcement of such judgment, order or award within two years. If any party fails to satisfy a civil judgment or order made by the court within the stipulated time, the other party may apply to a people's court for enforcement, or the judge in charge of such case may transfer such judgment or order to the enforcement personnel for enforcement.

A party seeking to enforce a civil judgment or order of a people's court against a party who is not located within the PRC or does not own any property in the PRC may apply to a foreign court with proper jurisdiction for recognition and enforcement of such judgment or order. When a legally effective judgment or ruling made by foreign court requires recognition and enforcement by a people's court in the PRC, a party concerned may apply directly to a competent intermediate people's court for recognition and enforcement, or a foreign court may, in accordance with the provisions of the international treaties concluded between or acceded to by the foreign country and the PRC or according to the principle of reciprocity, request the people's court for recognition and enforcement. Any judgment or ruling that results in a violation of the basic legal principles of the PRC, the State's sovereignty, security, or the social and public interests shall not be recognized or enforced.

THE PRC REGULATORY REGIME

We operate our business substantially in China under a legal regime consisting of the Standing Committee of the National People's Congress, the State Council and several ministries and agencies under its authority including, among others, the Ministry of Land and Resources, the Ministry of Housing and Urban-Rural Development, and the Ministry of Environmental Protection. According to the Institutional Reform Program of the State Council (國務院機構改革方案) promulgated by the PRC National People's Congress on March 17, 2018, the Ministry of Land and Resources has been incorporated into the newly organized the Ministry of Natural Resources and the Ministry of Housing and Urban-Rural Development's functions with respect to urban and rural planning has been transferred to the Ministry of Natural Resources. Besides, the Ministry of Environmental Protection has been incorporated into the newly organized the Ministry of Ecology and the Environment. Both the Ministry of Land and Resources and the Ministry of Environmental Protection will no longer be retained following the structure reform of administrative organs led by the State Council. Pursuant to the Program for Deepening the Reform of the Party and the State Institutions (深化黨和國家機構改革方案) promulgated by the Central Committee of the PRC Communist Party on March 21, 2018, the reform of the central and state institutions is expected to be completed before the end of the fiscal year of 2018.

ESTABLISHMENT OF A REAL ESTATE DEVELOPMENT ENTERPRISE

According to the PRC Law on Administration of Urban Real Estate (城市房地產管理法) promulgated by the Standing Committee of the National People's Congress, effective on January 1, 1995 and amended on August 27, 2009, real estate developer is defined as an enterprise that engages in the development and operation of real estate for the purpose of making profits. 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 amended on January 8, 2011, an enterprise that is to engage in development of real estate must satisfy the following requirements:

- its registered capital must be RMB1 million or more; and
- it must have four or more full-time professional real estate/construction technicians and two or more full-time accounting officers, each of whom must hold the relevant qualification certificate.

The local government of a province, autonomous region or municipality directly under the PRC central government may, based on local circumstances, impose more stringent requirements on the registered capital and the professional personnel of a real estate developer.

Where a foreign-invested enterprise is to be established to engage in the development and operation of real estate, it must also comply with the relevant requirements under the PRC laws and administrative regulations regarding foreign-invested enterprises and apply for approvals relating to foreign investments in China.

Under the Catalogue of Guidance on Industries for Foreign Investment (2015 version) (外商投資產業指導目錄) (2015年修訂) jointly promulgated by MOFCOM and NDRC on March 10, 2015 and enforced on April 10, 2015, the following have been removed from the restricted category to the permitted category:

- the development of a large scale of land lots to be operated by sino-foreign equity joint venture or sino-foreign cooperative joint venture only;
- the construction and operation of high-end hotels, premium office buildings and international conference centers; and
- real estate transaction in second-grade market, housing agents and brokerages.

Under the Catalogue of Guidance on Industries for Foreign Investment (2017 version) (外商投資產業指導目錄) (2017年修訂) jointly promulgated by MOFCOM and NDRC in June 2017, and enforced on July 28, 2017, the construction and operation of villas by foreign investors has been removed from the prohibited category and shall be subject to the same restricted measures as such investments by domestic investors.

A foreign investor intending to engage in the development and sale of real estate in China may establish an equity joint venture, a cooperative joint venture or a wholly foreign-owned enterprise by the foreign investor in accordance with the PRC laws and administrative regulations governing foreign-invested enterprises.

Pursuant to the Notice on Adjusting the Percentage of Capital Fund for Investment Projects in Fixed Assets (關於調整固定資產投資項目資本金比例的通知) issued by the State Council on May 25, 2009, the minimum portion of the capital funding for ordinary commodity housing projects and affordable housing projects has been reduced to 20%, while the portion for other real estate projects has been decreased to 30%. Furthermore, pursuant to the Notice on Adjusting and Perfecting the System of Capital Fund for Investment Projects in Fixed Assets (關於調整和完善固定資產投資項目資本金制度的通知) issued by the State Council on September 9, 2015, the minimum portion of the capital funding for ordinary commodity housing projects and affordable housing projects remains unchanged at 20%, while it has been adjusted from 30% to 25% for other real estate projects.

On July 11, 2006, MOC (currently known as MOHURD), MOFCOM, NDRC, PBOC, SAIC and SAFE jointly issued an Opinion on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market (關於規範房地產市場外資準入和管理的意見), which provides, among other things, that:

- (a) An overseas entity or individual investing in real estate in China other than for self-use must apply for the establishment of a FIREE in accordance with applicable PRC laws and the FIREE may only conduct operations within the authorized business scope.
- (b) If the total investment of a FIREE exceeds or equals US\$10 million, the registered capital must not be less than 50% of the total investment. If the total investment is less than US\$10 million, the amount of the registered capital shall follow the existing regulations.

- (c) For the establishment of a FIREE, the commerce authorities and the department of administration of industry and commerce are in charge of granting approval for establishment and effecting registration of the foreign-invested property development enterprise and issuing the approval certificate for a Foreign Investment Enterprise and the Business License which are only effective for one year. After settlement of the land premiums, the enterprise should apply for the Grant of State-owned Land Use Rights certificate by presenting the above-mentioned certificate and license. With the land use rights certificate, the enterprise will receive an official approval certificate for a Foreign Investment Enterprise from the commerce authorities, and shall replace the Business License with one that has the same operation term as the formal Approval Certificate for Foreign Investment Enterprise in the department of administration of industry and commerce, and then it shall apply for tax registration with the tax authorities.
- (d) Transfers of projects of or shares in FIREE, and the acquisitions of domestic real estate enterprises by foreign investors should follow strictly the relevant laws, regulations and policies to obtain the approvals. The investor should submit: (i) the guarantee letters for the performance of the Grant of State-owned Land Use Right, the Planning Permit for Construction Land and Construction Work Planning Permit; (ii) Certificate of Land Use Right; (iii) the certification on alteration of archival files issued by construction authorities; and (iv) the certification on the payment of tax issued by the relevant tax authorities.
- (e) When merging and acquiring domestic real estate enterprises by way of share transfer or other means, or the purchase of shares from the Chinese party in a sino-foreign equity joint venture, the foreign investors shall properly resettle the employees, settle the bank loans and pay all the consideration at a time with its internal fund.

On May 23, 2007, MOFCOM and SAFE issued the Circular on Strengthening and Regulating the Examination and Approval and Supervision of Foreign Direct Investment in the Real Estate Sector (關於進一步加強、規範外商直接投資房地產業審批和監管的通知), or Circular 50. Under Circular 50:

- (a) Foreign investment in the real estate sector in the PRC relating to high-end properties should be strictly controlled.
- (b) Prior to applying for establishment of FIREEs, foreign investors must first obtain land use rights, property ownership, or have entered into pre-sale or pre-granting agreements with the land administration authority or property developer/owner.
- (c) Acquisition of or investment in domestic real estate enterprises by way of round-trip investment (including the same actual controlling person) shall be strictly controlled. Further, overseas investors may not avoid approval for foreign investment in property by way of changing the actual controlling person of the domestic real estate enterprise. Once the foreign exchange authority has found the foreign-invested property enterprise established by way of deliberately avoiding approval and false representation, it shall take action against the enterprise's conduct of remittance of capital and interest accrued without approval, and the enterprise shall bear the liability for fraudulent purchases and evasion of foreign exchange.

- (d) Shareholders of FIREEs are prohibited from guaranteeing a fixed return or a similar guarantee to the other party in any way.
- (e) If foreign-invested enterprises in China engage in real estate development or operations or if FIREEs in China engage in new real estate project developments, they must first apply to the examination and approval authorities for their expansion of scope of business or scale of operations in accordance with the PRC laws and regulations related to foreign investments.
- (f) The local examination and approval authorities must file with MOFCOM their approvals of establishment of FIREEs for the record, and must exercise due control over foreign investments in high-end properties.
- (g) For those FIREEs which have not completed the required filing with the MOFCOM, local SAFE administrations and designated foreign exchange banks must not permit any foreign exchange sales and settlements under such FIREEs' capital account.

In connection with the filing requirement, MOFCOM issued the Notice on the Proper Filings of Foreign Investment in the Real Estate Sector (關於做好外商投資房地產業備案工作的通知) on June 18, 2008 to authorize the competent MOFCOM's branch at the provincial level to verify and check the filing documents.

Moreover, on November 22, 2010, MOFCOM promulgated the Notice on Strengthening Administration of the Approval and Filing of Foreign Investment into Real Estate Industry (關於加強外商投資房地產業審批備案管理的通知), which provides that, among other things, in the case that a real estate enterprise is established within the PRC with overseas capital, it is prohibited to purchase and/or sell real estate properties completed or under construction within the PRC for arbitrage purposes. The local MOFCOM authorities are not permitted to approve investment companies to engage in real estate development and management.

According to the Several Opinions of the State Council on Further Strengthening the Utilization of Foreign Investment (國務院關於進一步做好利用外資工作的若干意見), promulgated by the State Council on April 6, 2010 and the Notice on Issues Related to Delegation of Powers of Examination and Approval of Foreign Investment to Authorities at Lower Levels (關於下放外商投資審批權限有關問題的通知), promulgated by MOFCOM on June 10, 2010, MOFCOM's branch at the provincial level is responsible for the examination and approval of the establishment of and changes in foreign-invested enterprises in encouraged or permitted industries with a total investment of less than US\$300 million and with a total investment of less than US\$50 million in restricted industries. Pursuant to the Administrative Measures for Approval and Recording-filing of Foreign Investment Projects (外商投資項目核準和備案管理辦法), promulgated by NDRC on May 17, 2014, foreign investment in real estate industries or other restricted industries with a total investment of less than US\$50 million will be examined and approved by NDRC's branches at the provincial level.

On June 24, 2014, the MOFCOM and SAFE promulgated the Circular on Improving the Record-Filing for Foreign Investment in the Real Estate Sector (關於改進外商投資房地產業備案工作的通知), which simplified and changed the current paper record-filing form to the form of electronic data for foreign investment in real estate. Under the circular, a selective examination scheme and a credit system of recording-filing foreign investment will be conducted after the record-filing increase

the level of disclosure on violations, and improve the relevant information sharing mechanism. On November 6, 2015, MOFCOM and SAFE jointly enacted the Circular of the Ministry of Commerce and the State Administration of Foreign Exchange on Further Improving the Filing of Foreign Investments in Real Estate (商務部、外匯局關於進一步改進外商投資房地產備案工作的通知), which was effective on the same day, to further simplify the administrative procedures for foreign-funded real estate companies and cancel the registry publication procedures on the website of the MOFCOM.

On August 19, 2015, MOHURD, MOFCOM, NDRC, PBOC, SAIC and SAFE jointly issued an Opinion on Adjusting Policies on the Admittance and Administration of Foreign Capital in the Real Estate Market (關於調整房地產市場外資準入和管理有關政策的通知) which provides, among others, that (i) the ratio of registered capital to total investment of foreign invested real estate enterprises shall be subject to the Tentative Regulations on the Proportion of the Registered Capital to the Total Amount of Investment of Sino-foreign Equity Joint Ventures (關於中外合資經營企業註冊資本與投資總額比例的暫行規定); (ii) the requirement that a foreign invested real estate company must fully pay its registered capital before handling the procedures for domestic loans, foreign loans, and settlement of foreign exchange loans shall be canceled; (iii) the branches and representative offices of foreign institutions established in China (except the enterprises that are approved to operate real estate businesses) and the foreign individuals who work or study in China may purchase commodity houses for the purposes of self-use or living.

On October 8, 2016, Ministry of Commerce issued the Notice of the Ministry of Commerce on Soliciting Public Opinions on the Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises (外商投資企業設立及變更備案管理暫行辦法) (“Circular 3”), which came into effect on the same day and was amended on July 30, 2017, to further expanding liberalization, promoting the reform of the foreign investment management system. Where the establishment of a foreign-invested enterprise which is not subject to special administrative measures, after the enterprise name has been preliminarily approved, the representative designated, or the agent jointly entrusted, by all investors (or all promoters, if the foreign-invested enterprise is a foreign-invested company limited by shares) shall, before the issuance of the business license, or the representative designated, or the agent entrusted, by the foreign-invested enterprise shall, within 30 days after the issuance of the business license, fill out and submit online the Application Form for Record-filing of the Establishment of Foreign-invested Enterprises (hereinafter referred to as the “Application Form for Establishment”) and relevant documents via the Record-filing System to go through the procedures for record-filing of establishment. On the same day, NDRC and MOFCOM jointly issued a notice pursuant to which the scope of special administrative measures shall be governed by the relevant provisions of the Catalog of Guidance on Industries for Foreign Investment as revised in 2017 (外商投資產業指導目錄(2017)) restricted and prohibited industries as well as encouraged industries which are subject to the requirements for equity and senior executives.

QUALIFICATIONS OF A REAL ESTATE DEVELOPER

Under the Provisions on Administration of Qualifications 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 MOC on March 29, 2000, as amended on May 4, 2015, a real estate developer must apply for registration of its qualifications according to such Provisions on Administration of Qualifications. An enterprise may not engage in property development without a qualification classification certificate for real

estate development. MOC (currently known as MOHURD) oversees the qualifications of real estate developers with national operations, and local real estate development authorities at or above the county level oversee the qualifications of local real estate developers.

In accordance with the Provisions on Administration of Qualifications, real estate developers are classified into four classes: class 1, class 2, class 3 and class 4.

- Class 1 qualifications are subject to preliminary examination by the construction authorities at the provincial level and final approval of MOHURD. 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 the 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 GFA of less than 250,000 sq.m. subject to confirmation by the construction authorities at the provincial level.

Under the relevant PRC laws and regulations, the real estate development authorities will examine applications for registration of qualifications submitted by real estate developers by considering the professional personnel in their employ, 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 of any 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 real estate development authority will issue a provisional qualification certificate. The provisional qualification certificate will be effective for one year from its date of issue and may be extended for not more than two additional years. The real estate developer must apply for qualification classification to the real estate development authority within one month before expiration of the provisional qualification certificate.

DEVELOPMENT OF A REAL ESTATE PROJECT

Pursuant to the Circular of the State Council on Promulgating the Catalogue of Investment Projects Subject to the Approval of the Government (2016 Edition) (國務院關於發佈政府核準的投資項目目錄(2016年本)的通知) issued by State Council on December 12, 2016, which came to effect on the same date, for investment in the construction of fixed-asset investment projects listed in the Catalogue of Approval, the enterprises must report to relevant authorities for approval. Where enterprises invest in the construction of projects beyond Catalogue of Approval, such projects shall be subject to filing procedures.

According to the “Urban and Rural Planning Law of the People’s Republic of China” (中華人民共和國城鄉規劃法) enacted by the Standing Committee of the National People’s Congress on October 28, 2007 and enforced on January 1, 2008 (amended on April 24, 2015), which repealed the “City Planning Law of the People’s Republic of China” (中華人民共和國城市規劃法) enacted by the Standing Committee of the National People’s Congress on December 26, 1989 and enforced on April 1, 1990, and the “Measures for Planning Administration of Granting and Transfer of Right to Use Urban State-owned Land” (國有土地使用權出讓轉讓規劃管理辦法) enacted by the Ministry of Construction on December 4, 1992 and enforced on January 1, 1993 (amended on January 26, 2011),

a property developer shall apply for the Planning Permit for Construction Land (建設用地規劃許可證) from the city and county planning authority under the people's government with the granting contract and the relevant documents of approval, assessment, and record for the proposed real estate project. The granting of a contract without any provisions relating to land planning will be invalidated. In cases where the construction site of buildings, roads, pipelines or other structures is located in a planning zone of a city or county, the construction enterprises or individuals shall apply for a Planning Permit for Construction Works (建設工程規劃許可證) from the city/county planning authority or a people's government at village level designated by the provincial people's governments.

On January 21, 2011, the Regulations on the Expropriation of Buildings on State-owned Land and Compensation (國有土地上房屋徵收與補償條例) was promulgated by the State Council, a summary of the important provisions is set forth below:

- Where a building of any entity or individual on state-owned land is expropriated for public interest, the owner of the expropriated building shall be fairly compensated;
- The people's government at the city or county level shall publish in a timely manner the public opinions solicited and the amendments made according to the public opinions;
- Before making a decision on building expropriation, the people's government at the city or county level shall make a social stability risk assessment according to the relevant provisions;
- The compensation granted to an owner by the people's government at the city or county level which makes a building expropriation decision shall include:
 - (1) compensation for the value of the building expropriated;
 - (2) compensation for the relocation or temporary settlement resulting from the building expropriation; and
 - (3) compensation for the production or business interruption losses resulting from the building expropriation;
- The compensation for the value of the building expropriated shall not be less than the market price of real estate similar to the building expropriated on the date of announcement of the building expropriation decision;
- An owner may choose either monetary compensation or exchange of titles; and
- Compensation shall be made before relocation, and demolition and relocation with violence is prohibited.

According to the Measures for the Administration of Construction Permits for Construction Projects (建築工程施工許可管理辦法) promulgated by MOHURD on June 25, 2014, a property developer shall, after obtaining the construction land planning permit and the construction work planning permit, apply for a construction work commencement permit (建築工程施工許可證), or

Construction Permit, from the construction authority at or above county level, which is a governmental permit for commencing the construction work of a project. In a commodity real estate project, the construction authority will issue such construction work commencement permit to a developer when the following conditions have been satisfied:

- land grant contract has been signed and the construction land planning permit has been obtained;
- the construction work planning permit has been obtained;
- all required demolishing work is completed and the site is substantially ready for construction;
- the construction engineering contractor(s) having competent qualifications has been employed through appropriate approach;
- designing drawings for construction have been passed the examination by construction authority;
- reasonable measures to ensure construction quality and security have been passed the examination by construction authority;
- qualified construction supervision institution has been employed;
- sufficient capital for commence the construction has been arrived, which in principle, for construction contracts with term less than one year, shall not be less than 50% of the contract price and, for construction contracts with term longer than one year, shall not be less than 30% of contract price; and
- other conditions may be required by the competent construction authority.

According to the above Measures for the Administration of Construction Permits for Construction Projects, in cases where the investment amount is less than RMB300,000 or the construction area is less than 300 sq.m., such property projects are not required to obtain a Construction Permit. For a property project which requires a Construction Permit under the aforesaid regulations, the real estate developer must apply for such Construction Permit and may not begin construction without a Construction Permit.

On November 1, 1997, the Construction Law of the People's Republic of China (中華人民共和國建築法) was promulgated by the 28th Meeting of the Standing Committee of the Eighth National People's Congress, which became effective as of March 1, 1998 and amended on July 1, 2011. A summary of the important provisions in respect of construction production safety management in the Construction Law is set forth below:

- Construction project production safety management must adhere to the policy of safety and prevention first, and must establish and perfect a system of production safety. Construction project design shall conform to the construction safety procedures and technical standards formulated in accordance with state provisions to ensure the safe execution of the project.

- A building construction enterprise shall work out corresponding safety technical measures according to the characteristics of each construction project when developing its construction plans; for specialty-intensive items of the project, special-purpose designs for safe construction shall be compiled and safety technical measures taken.
- A construction unit shall, pursuant to the relevant state provisions, go through the formalities of application for approval in case of any of the following circumstances:
 - (1) need to temporarily occupy sites beyond the approved planned scope;
 - (2) possibility of damaging such public facilities as roads, pipes and cables, electricity, postal service and telecommunications;
 - (3) need to temporarily suspend the water supply, electricity supply or road traffic;
 - (4) need to conduct explosion operations; and
 - (5) other circumstances requiring application for approval as prescribed by laws and regulations.
- The competent department of construction administration shall be responsible for the administration of construction safety in production and subject to the guidance and supervision of the competent department of labor in construction safety in production in accordance with law.

On November 24, 2003, the State Council promulgated the Administrative Regulations on Safety in Construction Projects (建設工程安全生產管理條例), which set up sound regulations and rules to curb illegal operations, and make clear the obligations of each participant for construction safety. In addition, the regulations reinforce legal punishment for illegal operations.

According to the Notice Regarding Strengthening and Regulating the Administration of Newly-commenced Projects (國務院辦公廳關於加強和規範新開工項目管理的通知) issued by the General Office of the State Council on November 17, 2007, before commencement of construction, all projects shall fulfill certain conditions, including, among other things, compliance with national industrial policy, development planning, land supply policy and market access standards, completion of all approval and filing procedures, compliance with zoning regulations in terms of site and planning, completion of proper land use procedures and obtaining proper environmental valuation approvals and construction permits or reports.

The development of a real estate project must comply with various laws and legal requirements on construction quality, safety standards and technical guidance on architecture, design and construction work, as well as provisions of the relevant contracts. On January 30, 2000 and amended on October 7, 2017, the State Council promulgated and implemented the Regulation on the Quality Management of Construction Projects (建設工程質量管理條例), which sets the respective quality responsibilities and liabilities for developers, construction companies, reconnaissance companies, design companies and construction supervision companies. On August 1, 2008, the State Council issued the Regulations on Energy Efficiency for Civil Buildings (民用建築節能條例), which requires that the design and construction of new buildings must meet mandatory criteria on energy efficiency for buildings, and failure to meet such criteria will result in neither commencement of construction

or acceptance upon completion. Among other things, this regulation sets forth additional requirements for property developers in the sale of commodity buildings in this respect. After completion of construction, the real estate developer must organize an acceptance examination by relevant government authorities and experts according to the Interim Provisions on Inspection Upon Completion of Buildings and Municipal Infrastructure (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 file with the construction authority at or above the county level where the project is located within 15 days after the construction is qualified for the acceptance examination according to the Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure (房屋建築工程和市政基礎設施工程竣工驗收備案管理辦法) promulgated by MOC on April 4, 2000, as amended by MOHURD on October 19, 2009.

In China, there are two registers of property interests. “Land registration” is effected by the issue of land use right certificates by the relevant authorities to the land users. Land use rights may be assigned, mortgaged or leased. The building registration is effected by the issue of property ownership certificates to the property owners. “Property or building ownership rights” are only related to the building or improvements erected on the land. Under the PRC laws and regulations, all land use rights and property ownership rights that are duly registered are protected by law.

LAND FOR PROPERTY DEVELOPMENT

In 1988, the National People’s Congress amended the PRC Constitution (中華人民共和國憲法) and the PRC Land Administration Law (中華人民共和國土地管理法) to permit the transfer of land use rights in accordance with the laws and regulations. The PRC Land Administration Law has been further amended on August 29, 1998 and August 28, 2004.

Under the Interim Regulations of the People’s Republic of China on Grant and Assignment of the Use Right of State-owned Urban Land (城鎮國有土地使用權出讓和轉讓暫行條例) promulgated by the State Council on May 19, 1990, the PRC adopted a system to grant and assign the right to use state-owned land. A land user must pay a land premium to the state as consideration for the grant of the right to use a land site within a specified period of time, and the land user may assign, lease out, mortgage or otherwise commercially exploit the land use rights within the term of use. The relevant PRC laws and regulations provide that land use rights for a site intended for real estate development must be obtained through grant except for land use rights which may be obtained through premium-free allocation by the PRC government pursuant to the PRC laws or the stipulations of the State Council. Government-allocated land is not allowed to be transferred unless the transfer is approved by the relevant PRC government authorities and the land premium as determined by the relevant PRC government authorities has been paid.

Under the Regulation on Grant of State-owned Land Use Rights by Agreements (協議出讓國有土地使用權規定) promulgated by the Ministry of Land and Resources on June 11, 2003 and enforced on August 1, 2003, except for the project that must be granted through tender, auction and listing-for-sale as required by the relevant laws and regulations, land use right may be granted through transfer by agreement and the land premium for the transfer by agreement of the state-owned land use right shall not be lower than the land price set by the State. In some areas which has the benchmark land price, the land premium for the transfer by agreement shall not be lower than 70% of the benchmark land price where the land is located.

According to the Notice of the Ministry of Land and Resources on Relevant Issues Concerning the Strengthening of Examination and Approval of Land Use in Urban Construction (the Land Use Approval Notice) (關於加強城市建設用地審查報批工作有關問題的通知) enacted by the Ministry of Land and Resources on September 4, 2003, commencing from the day of distribution of the Land Use Approval Notice, land use for luxurious commodity houses shall be stringently controlled, and applications for land use for building villas shall be stopped.

The Urgent Notice on Further Governing and Rectifying Land Market and Strengthening Administration of Land (關於深入開展土地市場治理整頓嚴格土地管理的緊急通知) issued by the General Office of the State Council on April 29, 2004 restated the principle of strict administration of the approval process for the construction land and protection of the basic farmlands.

The Notice on Issues Relating to Strengthening the Land Control (關於加強土地調控有關問題的通知) promulgated by the State Council on August 31, 2006 sets forth the administration of the receipt and disbursement of the land premium, modifies the tax policies relating to the construction land, and builds up the system of publicity for the standards of the lowest price with respect to the granted state-owned land use right.

On March 16, 2007, the National People's Congress adopted the PRC Property Rights Law (中華人民共和國物權法), which became effective on October 1, 2007. According to the Property Rights Law, when the term of the right to use construction land for residential (but not other) purposes expires, it will be renewed automatically. Unless it is otherwise prescribed by any law, the owner of construction land use rights has the right to transfer, exchange, and use such land use rights as equity contributions or collateral for financing. If the state takes the premises owned by entities or individuals, it must compensate the property owners in accordance with law and protect the lawful rights and interests of the property owners.

On September 8, 2007, the Ministry of Land and Resources promulgated a Notice on Strengthening the Disposing of Idle Land (關於加大閒置土地處置力度的通知) providing that the grant of state-owned land use right shall be granted by ways of "Cultivated Land." It means that the grant of state-owned land use right can only be transferred after the payment of compensation fees for landing and settlement and completion of the land development at the earlier stage. The notice also prescribes that the state-owned land use rights certificate shall not be issued before the land grant premium for acquisition of land has been paid in full, nor be issued separately according to the ratio of payment of land grant premium.

In September 2007, the Ministry of Land and Resources further promulgated the Regulations on the Grant of State-owned Construction Land Use Rights Through Public Tender, Auction and Listing-for-sale (招標拍賣掛牌出讓國有建設用地使用權規定), which was enforced on November 1, 2007. This regulation requires that land for industrial use, except land for mining, must also be granted by public tender, auction and listing-for-sale. Only after the grantee has paid the land premium in full under the land grant contract, can the grantee apply for the land registration and obtain the land use right certificates. Furthermore, land use rights certificates may not be issued in proportion to the land premium paid under the land grant contract.

On February 27, 2007, the Ministry of Land and Resources and the Ministry of Finance jointly promulgated the Provisional Measures on Financial Administration of Reserve Land Funds (土地儲備資金財務管理暫行辦法) for the purpose of perfecting the land reserve system, strengthening land

regulation and control, regulating the operation of the land market, strengthening land administration and regulating land reserve administrative behaviors. Such provisional measures have been replaced by the Measures for the Financial Administration of Land Reserve Fund (土地儲備資金財務管理辦法) promulgated by the Ministry of Land and Resources and the Ministry of Finance on January 17, 2018.

On November 19, 2007, the Ministry of Land and Resources, the Ministry of Finance and PBOC jointly promulgated the Administration Measures on Land Reserve (土地儲備管理辦法), as amended on January 3, 2018, pursuant to which, local authorities should reasonably decide the scale of land reserve in accordance with the macro-control of the land market. Those idle, unoccupied, and low-efficient state-owned construction land inventory shall be used as land reserve in priority. The purpose of reserving such land is to control the property market and promote the appropriate use of land resources.

The State Council issued the Circular on Saving Intensive-use Land (國務院關於促進節約集約用地的通知) on land conservation and improving the efficiency of land use on January 3, 2008, in order to better protect arable land. The circular prescribed that, if land approved for development remains unused for more than two years, it should be recovered by the government according to laws and regulations. If the land remains idle for more than one year and less than two years, land developers should pay a 20% non-usage fee. More than 70 percent of the land used for construction of urban housing should be designated for residential purposes for low-rent units, affordable housing, price-limited housing and smaller units of less than 90 sq.m. The circular also stipulates that lending and financing services will not be provided for illegally used land. Moreover, financial institutions should be very prudent when they provide loans and/or when they examine financing for real estate projects that exceed one year from the start date listed in the land use right granting contract, for which less than of the development area has been completed, or for which less than 1/4 of the investment has been made.

On November 18, 2009, the Ministry of Finance, the Ministry of Land and Resources, PBOC, the PRC Ministry of Supervision and the PRC National Audit Office jointly promulgated the Notice on Further Enhancing the Revenue and Expenditure Control over Land Grant (關於進一步加強土地出讓收支管理的通知). The notice raises the minimum down-payment for land premiums to 50% and requires the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions.

On March 8, 2010, the Ministry of Land and Resources promulgated the Notice on Issues Regarding Strengthening Control and Monitor of Real Estate Land Supply (關於加強房地產用地供應和監管有關問題的通知). According to the notice, at least 70% of total land supply must be provisioned for affordable housing, redevelopment of shanty towns and small/medium residential units for self-use and the land supply for large residential units will be strictly controlled and while land supply for villa projects will be banned. The notice also requires that the lowest land grant price must be at least 70% of the basic land price in which the granted land is located and the real estate developers' bid deposit should be at least 20% of the lowest land grant price. The land grant contract must be executed within ten working days after the land transaction is confirmed. The minimum down payment of the land premium will be 50% and must be paid within one month after the execution of the land grant contract. The remainder of the land grant payment must be paid in accordance with the agreement within one year.

To implement the Notice of Firmly Curbing Housing Price in Certain Cities circulated by the State Council (國務院關於堅決遏制部分城市房價過快上漲的通知) on April 17, 2010, on September 21, 2010, the Ministry of Land and Resources and MOHURD jointly promulgated the Notice on Further Strengthening Control and Regulation of Land and Construction of Property Development (關於進一步加強房地產用地和建設管理調控的通知), which stipulated, among other things, that: (i) at least 70% of land designated for construction of urban housing must be used for affordable housing, housing for resettlement of shanty towns and small to medium-sized ordinary commercial housing; in areas with high housing prices, the supply of land designated for small to medium-sized, price-capped housing must be increased; (ii) developers and their controlling shareholders are prohibited from participating in land biddings before the rectification of certain misconduct, including (1) illegal transfer of land use rights; (2) failure to commence required construction within one year from the delivery of land under land grant contracts due to such developers' own reasons; (3) noncompliance with the land development requirements specified in land grant contracts; and (4) crimes such as swindling land by forging official documents and illegal land speculation; (iii) developers are required to commence construction within one year from the date of delivery of land under the relevant land allocation decision and land grant contract and complete construction within three years of commencement; (iv) development and construction of projects of low-density and large-sized housing must be strictly limited and the plot ratio of the planned GFA to the total site area of residential projects must be more than 1:1; and (v) the grant of two or more bundled parcels of lands and undeveloped land is prohibited.

On December 19, 2010, the Ministry of Land and Resources promulgated the Notice on Strict Implementation of Policies Regarding Regulation and Control of Real Property Land and Promotion of the Healthy Development of Land Markets (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), which provides, among other things, that: (i) cities and counties that have less than 70% of their land supply designated for affordable housing, housing for redevelopment of shanty towns or small/medium residential units must not provide land for large-sized and high-end housing before the end of year 2010; (ii) land and resource authorities in local cities and counties will report to Ministry of Land and Resources and provincial land and resource authorities, respectively regarding land with a premium rate of more than 50%; (iii) for any land which has been designated for affordable housing, is used for property development against relevant policies the illegal income will be confiscated and the relevant land use rights will be withdrawn. Moreover, changing the plot ratio without approval is strictly prohibited.

On January 26, 2011, the State Council circulated Notice on Further Regulating the Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知), which provides stricter management of housing land supply, among other things, that participants or individual bidding on any land unit shall show proof of funding sources.

According to the Notice on Implementation Measures on Urban Housing Land Management and Regulation in 2011 (關於切實做好2011年城市住房用地管理和調控重點工作的通知) promulgated by the Ministry of Land and Resources in February 2011, construction land for 10 million units of affordable housing units shall be implemented in 2011. It also requires that the target total supply of urban housing land shall not be lower than the annual average supply for the preceding two years.

According to the Circular on the Distribution of the Catalog for Restricted Land Use Projects (2012 Edition) and the Catalog for Prohibited Land Use Projects (2012 Edition) (關於印發(限制用地項目目錄)(2012年本)和(禁制用地項目目錄)(2012年本)的通知) promulgated by the Ministry of

Land and Resources in May 2012, the transferred area of the residential housing projects should not exceed (i) seven hectares for small cities and towns, (ii) 14 hectares for medium-sized cities, or (iii) 20 hectares for large cities and plot ratio which is not more than 1.0.

On June 1, 2012, the MLR revised and promulgated the Measure for the Disposal of Idle Land (閒置土地處置辦法), which further clarified that, under the following circumstances, a parcel of land shall be defined as “idle land”:

- any State-owned land for construction use, of which the holder of the land use right fails to start the construction and development thereof within one year after the commencement date of the construction and development work as agreed upon and prescribed in the contract for fee-based use of State-owned land for construction use, or the decision on allocation of State-owned land for construction use;
- any State-owned land for construction use of which the construction and development have been started but the area of land that is under construction and development is less than one third of the total area of land that should have been under construction and development or the amount invested is less than 25% of the total investment, and the construction and development of which has been suspended for more than one year.
- if a parcel of land is deemed as idle land by competent department of land and resources, unless otherwise prescribed by the new Measures for the Disposal of Idle Land, the land shall be disposed of in the following ways:
 - where the land has remained idle for more than one year, the competent department of land and resources at the municipal or county level shall, with the approval of the people’s government at the same level, issue a Decision on Collecting Charges for Idle Land to the holder of the right to use the land and collect the charges for idle land at the rate of 20% of the land assignment or allocation fee; and the said charges for idle land shall not be included in the production cost by the holder of the land use right; and
 - where the land has remained idle for more than two years, the competent department of land and resources at the municipal or county level shall, with the approval of the people’s government at the same level, issue a Decision on Taking Back the Right to Use the State-owned Land for Construction Use to the holder of the land use right.

However, where the land is idle due to several specified acts of any government or government department, the land administrative authority may, through consultation with the holder of the land use right, choose to extend the time limit for the commencement of land construction and development, withdraw use right to land by providing compensation, or provide another plot of land for exchange, among other options.

On May 22, 2014, the Ministry of Land and Resources promulgated Provisions on the Economical and Intensive Use of Land (節約集約利用土地規定), effective from September 1, 2014, which provided that land and resources authorities shall effectively control the scale of added construction lands in the metropolis; the supply of various lands under compensable use shall be not

less than the lowest price standards; it is prohibited to reduce or relieve the land grant price in a disguised form by way of exchanging projects with land, returning fees after collecting them or granting subsidies or awards.

On April 1, 2017, the Ministry of Land and Resources and the Ministry of Housing and Urban-Rural Development jointly promulgated the Circular on Recently Tightening the Management and Control over Residential Properties and Land Supply (關於加強近期住房及用地供應管理和調控有關工作的通知), which stipulated, among other things, (i) the scale, structure and time sequence of housing land supply will be adjusted in due time according to the commercial housing inventory cycle, and the supply of land (a) with the inventory cycle of more than 36 months shall be suspended, (b) with the inventory cycle of 18 to 36 months shall be reduced, (c) with the inventory cycle of 6 to 12 months shall be increased, and (d) with the inventory cycle of less than six months shall be increased and accelerated; (ii) the local authority will build a fund inspection system to ensure that the real estate developers use own legal funds to acquire land use right; and (iii) the local bidding system of the land use right shall be determined in a flexible manner, according to the local actual status and specific conditions of land.

On May 19, 2018, the Ministry of Housing and Urban-Rural Development promulgated the Circular on Further Maintaining Effective Regulation of the Real Estate Market (關於進一步做好房地產市場調控工作有關問題的通知), which provided that the proportion of residential land shall be enhanced in certain cities and the proportion of residential land in urban construction land is recommended to be not less than 25%.

SALE OF COMMODITY HOUSES

Under the Measures for Administration of Sale of Commodity Houses (商品房銷售管理辦法) promulgated by MOC on April 4, 2001 and enforced on June 1, 2001, sale of commodity houses can include both sales before the completion of the properties, or pre-sale, and sales after the completion of the properties.

Any pre-sale of commodity buildings must be conducted in accordance with the Measures for Administration of Pre-sale of Commodity Buildings in Urban Area promulgated by MOC on November 15, 1994 (城市商品房預售管理辦法), as amended on August 15, 2001 and July 20, 2004, and other related regulations. The pre-sale regulations provide that any pre-sale of commodity properties is subject to specified procedures. According to the current PRC laws and regulations, a developer intending to sell a commodity building before its completion must apply to the real estate development authorities for a pre-sale permit. A commodity building may be sold before completion only if:

- the land premium has been paid in full for the grant of the land use rights involved and a land use rights certificate has been properly obtained;
- a construction planning permit and a construction permit have been properly obtained;
- funds invested in the development of the commodity buildings for pre-sale represent 25% or more of the total investment in the project and the construction progress, as well as the completion and delivery dates have been properly ascertained; and

- the pre-sale has been registered and a pre-sale permit has been obtained.

The pre-sale proceeds of commodity buildings must be used to develop the relevant project so pre-sold.

Commodity buildings may be put to post-completion sale and delivery after they have passed the acceptance examination and otherwise satisfy the various preconditions for such sale. Under the “Measures for Administration of Sales of Commodity Houses” (商品房銷售管理辦法), commodity buildings may be put to post-completion sale when the following pre-conditions have been satisfied: (a) the property development enterprise offering to sell the post-completion properties shall have an enterprise legal person business license and a qualification certificate of a property developer; (b) the enterprise has obtained the State-owned Land Use Rights Certificate or other approval documents of land use; (c) the enterprise has the Planning Permit for Construction Works and the Construction Permits; (d) the commodity properties have been completed and been inspected and accepted as qualified; (e) the relocation of the original residents has been well settled; (f) the ancillary infrastructure facilities for supplying water, electricity, heating, gas, communication, etc. have been made ready for use, and other ancillary essential facilities and public facilities have been made ready for use, or the schedule of construction and delivery date of have been specified; (g) the property management plan has been completed. Before the post-completion sale of a commodity building, the developer must, among other things, submit a real estate development project manual and other documents relating to the project evidencing the satisfaction of the preconditions for post-completion sale to the real estate development authority for its record.

On April 13, 2010, MOHURD issued the Notice on Further Enhancing the Supervision of the Real Estate Market and Perfecting the Pre-sale System of Commodity Houses (關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知). Pursuant to the notice, without pre-sale approval, the commodity houses are not permitted to be pre-sold and the real estate developer is not allowed to charge the buyer any deposit, prepayment or payment of a similar nature. The Provisions on Sales of Commodity Properties at Clearly Marked Price (商品房銷售明碼標價規定) was promulgated by the NDRC on March 16, 2011 and became effective on May 1, 2011. According to the provisions, any real estate developer or real estate agency (“real estate operators”) is required to mark the selling price explicitly and clearly for both newly-build and second-hand commodity properties. The provisions require real estate operators to clearly indicate to the public the prices and relevant fees of commodity properties, as well as other factors affecting the prices of commodity properties. With respect to the real estate development projects that have received property pre-sale licence or have completed the filing procedures for the sales of constructed properties, real estate operators shall announce all the commodity properties available for sales at once within the specified time limit. Furthermore, with regard to a property that has been sold, real estate operators are obliged to disclose this information and to disclose the actual transaction price. Real estate operators cannot sell commodity properties beyond the stated price or charge any other fees not explicitly marked. Moreover, real estate operators may neither mislead property purchasers with false or irregular price marking, nor engage in price fraud by using false or misleading price marking methods.

On October 10, 2016, MOHURD promulgated the Circular on Further Regulating the Operation of Real Estate Developers to Protect the Real Estate Market Discipline (關於進一步規範房地產開發企業經營行為維護房地產市場秩序的通知), which requires that improper operations of real estate developers shall be investigated and punished according to the related law. The improper operations include releasing or spreading false housing information and advertisements, maliciously pushing

higher and artificially inflating housing prices by fabricating or spreading information on rising property price and other operations.

TRANSFER OF REAL ESTATE

According to the PRC laws and the Provisions on Administration of Transfer of Urban Real Estate (城市房地產轉讓管理規定) promulgated by MOC on August 7, 1995, as amended on August 15, 2001, a real estate owner may sell, gift or otherwise legally transfer the property to another natural person or legal entity. When transferring a property, the ownership of the property and the land use rights to the site on which the property is situated are transferred together. The parties to a transfer must enter into a written real estate transfer contract and register the transfer with the real estate administration authority having jurisdiction over the location of the property within 90 days of the execution of the transfer contract.

Where the land use rights are originally obtained by grant, the real property may only be transferred on the condition that:

- the land premium has been paid in full for the granted land use rights as required by the land grant contract and a land use rights certificate has been properly obtained; and
- in the case of a project in which buildings are being developed, development representing more than 25% of the total investment has been completed; or
- in case of a whole land lot development project, construction works have been carried out as planned, water supply, sewerage, electricity supply, heat supply, access roads, telecommunications and other infrastructure or utilities have been made available, and the site has been leveled and made ready for industrial or other construction purposes; or
- in the case of the construction of buildings have been completed, the building ownership certificate should have been obtained.

If the land use rights are originally obtained by grant, the term of the land use rights after transfer of the real estate will be the remaining portion of the original term in the land grant contract. In the event that the assignee intends to change the use of the land provided in the land grant contract, consent must first be obtained from the original land use rights grantor and the planning administration authority at the relevant city or county and an agreement to amend the land grant contract or a new land grant contract must be signed in order to, *inter alia*, change the use of the land and adjust the land premium accordingly.

If the land use rights are originally obtained by allocation, such allocated land use right may be changed to granted land use rights upon approval by the government vested with the necessary approval power as required by the State Council.

LEASES OF BUILDINGS

Measures for Administration of Leases of Commodity Property (商品房屋租賃管理辦法) promulgated by MOHURD on December 1, 2010 and enforced on February 1, 2011, repealing the Measures for Administration of Leases of Buildings in Urban Areas (城市房屋租賃管理辦法)

promulgated by MOC on May 9, 1995 and enforced on June 1, 1995, provides that parties to a lease of a building must enter into a lease contract in writing. When a lease contract is signed, amended or terminated, the parties must register the details with the real estate administration authority at the city or county in which the building is situated. If the parties to a leasehold arrangement of a property do not register the lease of properties with the competent authorities, and also fail to correct their behavior within a definite time, they will be subject to fine.

MORTGAGES OF REAL ESTATE

Under the PRC Urban Real Estate Administration Law (中華人民共和國城市房地產管理法) promulgated by the Standing Committee of the National People's Congress on July 5, 1994, enforced on January 1, 1995 and amended on August 30, 2007, the PRC Security Law (中華人民共和國擔保法) promulgated by the National People's Congress on June 30, 1995 and enforced on October 1, 1995, and the Measures for Administration of Mortgages of Urban Real Estate (城市房地產抵押管理辦法) promulgated by MOC on May 29, 1997, enforced on June 1, 1999 and amended on August 15, 2001, when a mortgage is created on the ownership of a building legally obtained, such mortgage must be simultaneously created on the land use rights of the land on which the building is situated. The mortgagor and the mortgagee must sign a mortgage contract in writing. China has adopted a system to register mortgages of real estate. After a real estate mortgage contract has been signed, the parties to the mortgage must register the mortgage with the real estate administration authority at the location where the real estate is situated. A real estate mortgage contract will become effective on the date of registration of the mortgage.

The PRC Property Rights Law (中華人民共和國物權法) promulgated on March 16, 2007 that became effective on October 1, 2007 further widens the scope of assets that can be mortgaged, allowing for any asset associated with property rights to be mortgaged as collateral unless a specific prohibition under another law or regulation applies. The PRC Property Rights Law provides that the mortgage registration of buildings and other objects fixed to land, the right to use construction land and a building under construction shall be gone through, such mortgage right shall be established as of the date of registration. The buildings newly constructed on the land after the mortgage of the right to use construction land may not belong to the mortgaged properties. Such newly constructed buildings can be disposed of together with the disposal of the aforesaid right to use construction land so as to realize the mortgage right; however, the mortgagee has no right to seek preferred payments from the money generated from the disposal of these newly constructed buildings.

On February 15, 2008, MOC released Procedures for Property Registration (房屋登記辦法) (the "Procedures"). The Procedures are scheduled to take effect on July 1, 2008. Measures on Administration of Urban Houses Registration (城市房屋權屬登記管理辦法) and Decisions by the MOC to Revise Measures on Administration of Urban Houses Registration (建設部關於修改《城市房屋權屬登記管理辦法》的決定) was revoked on that day. The Procedures stipulate that in property registrations, the owners of the housing property rights should correspond with the owners of the land use rights. Based on PRC Property Rights Law, the Procedures specifically regulate the pre-registration, registration of mortgage rights for construction work in process, registration for maximum mortgage amount, registration of rectification, registration for objection and registration for easement, which make property registrations more operable.

According to the Interim Regulations on Real Estate Registration (不動產登記暫行條例) promulgated by the State Council on November 24, 2014 and implemented on March 1, 2015, the state applies a uniform registration system over real estate.

PROPERTY FINANCE

The PBOC issued the Circular on Further Strengthening the Management of Loans for Property Business (關於進一步加強房地產信貸業務管理的通知) on June 5, 2003 to specify the requirements for banks to provide loans for the purposes of real estate development and individual home mortgage as follows:

- The real estate loan by commercial banks to real estate development enterprises shall be granted only under the title of real estate development loan and it is strictly forbidden to extend such loans as current capital loan for real estate development projects or other loan items. No lending of any type shall be granted to enterprises which have not obtained the State-owned Land Use Rights Certificate, Planning Permit for Construction Land, Planning Permit for Construction Works and Permit for Commencement of Construction Works;
- Commercial banks shall not grant loans to real estate developers to pay off land premium; and

Commercial banks may only provide mortgage loans to individual buyers when the main structural buildings have been topped out. When a borrower applies for individual home loans for his first residential unit, the down payment shall remain 20%. In respect of the borrower's loan application for his or her second or more (including the second) residential unit(s), the percentage of the first installment shall be increase.

In a Circular on Facilitating the Continuously Healthy Development of the Real Estate Market (關於促進房地產市場持續健康發展的通知) issued by the State Council on August 12, 2003, a series of measures were adopted by the government to control the real estate market. They included, among others, strengthening the construction and management of low-cost affordable houses, increasing the supply of ordinary commodity houses and controlling the construction of high-end commodity houses. Additionally, the government staged a series of measures on lending for residential development, including, among others, improving the loan evaluation and lending process, improving the guarantee mechanism of individual home loans and strengthening the monitoring over property loans.

Pursuant to the Guidance on Risk Management of Property Loans of Commercial Banks (商業銀行房地產貸款風險管理指引) issued by CBRC on August 30, 2004, any real estate developer applying for real estate development loans shall have at least 35% of capital funds required for the development.

According to the "Notice of the People's Bank of China on the Adjustment of Commercial Bank Housing Loan Policies and the Interest Rate of Excess Reserve Deposit" (中國人民銀行關於調整商業銀行住房信貸政策和超額準備金存款利率的通知) enacted by the PBOC on March 16, 2005, starting from March 17, 2005, the down payment of individual residential property loan increased from 20% to 30% in cities and areas where property prices grow too quickly.

On May 24, 2006, the State Council forwarded the “Opinion of the Ministry of Construction and Other Departments on Adjusting the Housing Supply Structure and Stabilizing Property Prices” (關於調整住房供應結構穩定住房價格的意見). The regulations provide the following:

- Tightening the control of real estate advancing loan facilities. Commercial banks are not allowed to advance their loan facilities to real estate developers who do not have the required 35% or more of the total capital for the construction projects. Commercial banks should be prudent in granting loan facilities and/or revolving credit facilities in any form to the real estate developers who have a large number of idle lands and unsold commodity properties. Banks shall not accept mortgages of commodity properties remaining unsold for three years or longer.
- From June 1, 2006 and onward, individual purchasers need to pay a minimum of 30% of the purchase price as down payment. However, if individual purchasers purchase apartments with a floor area of 90 sq.m. or less for residential purposes, the existing requirement of 20% of the purchase price as down payment remains unchanged.

According to the “Circular on Standardizing the Admittance and Administration of Foreign Capital in the Property Market” (關於規範房地產市場外資進入和管理的意見) enforced on July 11, 2006, foreign-invested real estate development enterprises who have not fully paid up their registered capital fund fully, or failed to obtain the State-owned Land Use Rights Certificate, or with under 35% of the total investment for the project, will not be allowed to obtain a loan in or outside China, and foreign exchange administration departments shall not approve any settlement of foreign loans by such enterprises.

On September 27, 2007, the PBOC and CBRC jointly promulgated a Circular on Strengthening the Management of Commercial Real Estate Credit Loans (關於加強商業性房地產信貸管理的通知), with a supplement issued in December 2007. The circular aims to tighten the control over real estate loans from commercial banks to prevent granting excessive credit. The measures include:

- for a first-time home owner, increasing the minimum amount of down payment to 30% of the purchase price of the underlying property if the underlying property has a unit floor area of 90 sq.m. or more and the purchaser is buying the property as its own residence;
- for a second-time home buyer, increasing (i) the minimum amount of down payment to 40% of the purchase price of the underlying property and (ii) the minimum mortgage loan interest rate to 110% of the relevant PBOC benchmark one-year bank lending interest rate. If a member of a family (including the buyer, his/her spouse and their children under 18) has financed the purchase of a residential unit, any member of the family that buys another residential unit with bank loans will be regarded as a second-time home buyer;
- for a commercial property buyer, (i) requiring banks not to finance any purchase of pre-sold properties, (ii) increasing the minimum amount of down payment to 50% of the purchase price of the underlying property, (iii) increasing the minimum mortgage loan interest rate to 110% of the relevant PBOC benchmark one-year bank lending interest rate and (iv) limiting the terms of such bank loans to no more than ten years, although commercial banks are given certain flexibility based on their risk assessment;

- for a buyer of commercial/residential dual-purpose properties, increasing the minimum amount of down payment to 45% of the purchase price of the underlying property, with the other terms to be decided by reference to commercial properties; and
- prohibiting commercial banks from providing loans to real estate developers who have been found by relevant government authorities to be hoarding land and properties.

In addition, commercial banks are also banned from providing loans to the projects that have less than 35% of capital funds (proprietary interests), or fail to obtain land use right certificates, construction land planning permits, construction works planning permits or construction permits. Commercial banks are also prohibited from accepting commercial premises that have been vacant for more than three years as collateral for loans. In principle, real estate development loans provided by commercial banks should only be used for projects where commercial banks are located. Commercial banks may not provide loans to property developers to finance the payment of land premium.

According to the Notice on Extending the Downward Range of the Interest Rate for Commercial Personal Home Loans and Supporting the Residents in First-time Purchase of Ordinary Residential Homes (擴大商業性個人住房貸款利率下浮幅度支援居民首次購買普通住房的通知) issued by PBOC on October 22, 2008, the minimum amount of down payment for the first-time home buyer has been adjusted to 20% since October 27, 2008.

On September 29, 2010, PBOC and CBRC jointly issued the Notice on Relevant Issues Regarding the Improvement of Differential Mortgage Loan Policies (關於完善差別化住房信貸政策有關問題的通知), which raised the minimum down payment to 30% for all first-time house purchases.

It also provides that commercial banks in China shall suspend mortgage loans to purchasers for their third residential property and beyond or to non-local residents who cannot provide documentation certifying payment of local tax or social security for longer than a one-year period. In addition, all property companies with records of being involved in abuse of land, changing the use of land, postponing the construction commencement or completion date, hoarding properties or other non-compliance will be restricted from obtaining bank loans for new projects or extension of credit facilities.

On November 2, 2010, MOHURD, the Ministry of Finance, PBOC and CBRC jointly promulgated the Notice on Relevant Issues Concerning Policies of Regulation of Individual Housing Reserve Loan (關於規範住房公積金個人住房貸款政策有關問題的通知), which provided that, among other things: (i) where a first-time home buyer (including the borrower, spouse and minor children) uses housing reserve loans to buy an ordinary house for self-use with a unit floor area: (a) equal to or less than 90 sq.m., the minimum down payment shall be at least 20%; (b) more than 90 sq.m., the minimum down payment shall be at least 30%; (ii) for a second-time home buyer that uses housing reserve loans, the minimum down payment shall be at least 50% with the minimum lending interest rate of 110% of the benchmark rate; (iii) the second housing reserve loan will only be available to families whose per capita housing area is below the average in locality and such loan must only be used to purchase an ordinary house for self-use to improve residence conditions; and (iv) housing reserve loans to families for their third residential property and beyond will be suspended.

On January 26, 2011, General Office of the State Council issued the Notice of the State Council on Issues Related to Further Enhancing the Regulation and Control of the Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知). According to this Notice, for those households who purchase the second set of housing through loan, the down payment ratio shall not be lower than 60%. The loan interest shall not be lower than 1.1 times the benchmark interest rate. The respective branches of PBOC may raise the down payment ratio and interest rate on loans for second home based on the price control targets set by the local People's Government for newly constructed houses and the policy requirements, and on the basis of national unified credit policies.

On February 26, 2013, the General Office of the State Council issued the Notice on Continuing Adjustment and Control of Property Markets (關於繼續做好房地產市場調控工作的通知) which reaffirmed the above measures. On September 29, 2014, PBOC and CBRC issued the Notice on Further Improvement of Housing Finance Service (關於進一步做好住房金融服務工作的通知), which states that, among other things:

- For the family to purchase its first residential property for private use with an individual loan, the down payment of the purchase shall be 30% of the total purchase price and the minimum of the interest rate of the loan is 70% of the base interest rate, and the specific rate may be determined by the bank at its discretion based on the risk.
- For the family which has already owned one residential property and paid up the relevant loan, should it apply for loan again for the second residential property to improve its living conditions, the bank can treat it as the first residential property for its loan application.

On March 30, 2015, the PBOC, CBRC and Ministry of Housing and Urban-rural Development jointly issued the Notice on Issues of Individual Mortgage Loans Policies (關於個人住房貸款政策有關問題的通知) to lower the minimum down payment to 40% for a family that owns a residential property and has not paid off its existing mortgage loan applying for a new mortgage loan to purchase another ordinary residential property to improve living conditions and allow banks at their own discretion to decide the down payment ratio and loan interest rate taking into consideration the solvency and credit standing of the borrowers.

Where the family of a worker who pays housing provident fund contributions uses a housing provident fund commission loan to purchase the first residential property to be used as the purchaser's residence, the minimum down payment ratio is 20%; where the family of a worker who already owns one residential property, of which relevant housing loan has been settled, files a new application for a housing provident fund commission loan for purchasing of another residential property as the purchaser's residence for the purpose of improving its living conditions, the minimum down payment ratio is 30%.

On February 1, 2016, the PBOC and CBRC issued the Circular on Issues Concerning Adjusting Individual Housing Loan Policies (關於調整個人住房貸款政策有關問題的通知) which requires that: (i) in the cities without restrictive measures for purchasing houses, the minimum down payment for the purchase shall, in principle, be 25% of the house price with regard to the residential mortgage for first time purchasers of common residential houses, and the said percentage may be lowered by five percentage points in different regions; with respect to resident households that own a residential house with an outstanding residential mortgage but apply for another residential mortgage in order to purchase a second house so as to improve living conditions, the minimum down payment for the purchase shall be at least 30% of the corresponding house price; (ii) in the cities with restrictive measures on purchasing houses, the individual housing loan policies shall be subject to the original provisions.

On November 25, 2016, the Shanghai Housing Urban and Rural Construction Management Committee, People's Bank of China Shanghai Branch and China Banking Regulatory Commission Shanghai Regulatory Bureau promulgated the Notice on Promoting the Stable, Healthy and Orderly Development of Shanghai's Real Estate Market and Further Consummating the Differential Housing Credit Policy (關於促進本市房地產市場平穩健康有序發展進一步完善差別化住房信貸政策的通知) (the "Circular 1062"), which, among other things, provides that:

- each housing administrative authority shall strengthen the housing transaction supervision, verify the housing status and information of the purchasers and issue the inspection results according to relevant rules and regulations;
- for any family which purchases its first residential property (namely, the family has no residential property in Shanghai nor any record of commercial housing loan or housing provident fund loan) with individual commercial housing loan, the family is required to pay a down payment of no less than 35% of the purchase price;
- if any of the following conditions is met, for any family which purchases an ordinary residential property with individual commercial housing loan, the family is required to pay a down payment of no less than 50% of the purchase price, and for any family which purchases a non-ordinary residential property with individual commercial housing loan, the family is required to pay a down payment of no less than 70% of the purchase price:
 - (1) The family has no residential property in Shanghai but has record(s) of commercial housing loan or housing provident fund loan; or
 - (2) The family has one residential property in Shanghai.

On November 29, 2016, the Shanghai Housing Provident Fund Management Committee issued the Circular on Adjusting the Policies of Shanghai Municipality on Housing Provident Fund for Individual Loan (關於調整本市住房公積金個人貸款政策的通知) (the "Circular 18"), which, among other things:

- provides that, for any family which has no residential property in Shanghai nor any record of housing provident fund loan, the residential property bought by such family shall be treated as the first residential property for its loan application and the credit policy remains unchanged.
- provides that, for any family which has no residential property in Shanghai but has one loan record, or has one residential property and intends to purchase the second residential property to improve its living conditions, the residential property bought by such family shall be treated as the second residential property for improving living conditions for its loan application. Under such circumstances:
 - (1) the interest rate of housing provident fund for individual loans is adjusted to 110% of the lending interest rate of a first-time residential property purchaser of the same period;

- (2) the maximum loan amount is adjusted to RMB800,000 (or RMB1,000,000 if additional housing fund is applicable) for a family and RMB400,000 (or RMB500,000 if additional housing fund is applicable) for an individual; and
 - (3) the down payment shall be no less than 50% of the purchase price for an ordinary residential property and no less than 70% of the purchase price for a non-ordinary residential property.
- prohibits the Shanghai Housing Provident Fund Management Center from providing a loan to any applicant if:
 - (1) the family's record already shows two loans;
 - (2) the purpose of purchasing a second residential property by the family is not for improving living conditions.

On December 12, 2017, Shanghai Housing Provident Fund Management Committee promulgated the Measures for Shanghai Municipal Housing Provident Fund for Individual Loan (上海市住房公積金個人住房貸款管理辦法), effective from April 1, 2018, which further stipulated the administration measures of housing provident fund for individual housing loans in Shanghai.

INSURANCE

There is no mandatory provision under the PRC laws, regulations and government rules which would require a property developer to take out insurance policies for their real estate developments. According to the common practice of the property industry in China, construction companies are usually required to submit insurance proposals in the course of tendering and bidding for construction projects. Construction companies must pay for the insurance premium at their own costs and take out insurance to cover their liabilities, such as third party's liability risk, employer's liability risk, risk of nonperformance of contract in the course of construction and other kinds of risks associated with the construction and installation works throughout the construction period. The insurance coverage for all these risks will cease immediately after the completion and acceptance upon inspection of construction.

In light of the "Construction Law of the People's Republic of China" (中華人民共和國建築法) enacted by the Standing Committee of the National People's Congress on November 1, 1997 and enforced on March 1, 1998, construction enterprises must take out accident and casualty insurance for workers engaged in dangerous operations and pay insurance premium. In the "Opinions of the MOC on Strengthening the Insurance of Accidental Injury in Construction Work" (建設部關於加強建築意外傷害保險工作的指導意見) by the MOC on May 23, 2003, the MOC further emphasizes the importance of insurance for accidental injury in construction work and put forward the detailed opinions of guidance.

MEASURES ON STABILIZING HOUSING PRICE

The General Office of the State Council promulgated a Circular on Stabilizing Housing Price (關於切實穩定住房價格的通知) on March 26, 2005, introducing measures to be taken to restrain the housing price from increasing too fast and to promote a stable development of the real estate market. On April 30, 2005, MOC, NDRC, the Ministry of Finance, the Ministry of Land and Resources, PBOC, the State Administration of Taxation and CBRC jointly issued an Opinions on Stabilizing Housing Prices (關於做好穩定住房價格工作的意見) containing the following guidance:

- Where the housing price is growing too fast, while the supply of ordinary commodity houses at medium or low prices and low-cost affordable houses is insufficient, housing construction should mainly involve projects of ordinary commodity houses at medium or low prices and low-cost affordable houses. The construction of low-density, high-end houses should be strictly controlled. The relevant local government authorities are authorized to impose conditions on planning and design such as building height, plot ratio and green space and to impose such requirements as the selling price, type and GFA as preconditions on land assignment. Local governments are also required to strengthen their supervision of real estate developments in their jurisdictions.
- Where the price of land for residential use and the price for residential housing are growing too fast, the proportion of land supply for residential use to the total land supply should be appropriately raised, and the land supply for the construction of ordinary commodity houses at medium or low prices and low-cost affordable houses should be especially increased. Land supply for villa construction should continue to be suspended, and land supply for high-end housing property construction should be strictly restricted.
- Idle land fee must be imposed on land that has not been developed for one year from the contractual construction commencement date as may be specified in the land grant contract. Land use rights of land that has not been developed for two years must be forfeited without compensation.
- Commencing from June 1, 2005, a business tax upon transfer of a residential house by an individual within two years from his/her purchase will be levied on the entire sales proceeds from such sale. For an individual to transfer an ordinary residential house after two years from his/her purchase, the business tax will be exempted.
- Ordinary residential houses with medium or small GFAs and at medium or low prices may be granted preferential treatment such as planning permits, land supply, credit and taxation. Houses enjoying these preferential policies must satisfy the following conditions in principle: the plot ratio is above 1.0, the GFA of one single unit is less than 120 sq.m., and the actual transfer price is lower than 120% of the average transfer price of comparable houses at comparable locations. The local governments at the provincial level may, based on their actual local circumstances, formulate specific standards for ordinary residential houses that may enjoy the preferential policies.
- Transfer of unfinished commodity properties by any pre-sale purchaser is forbidden. In addition, purchasers are required to buy properties in their real names. Any commodity property pre-sale contract must also be electronically filed with the relevant government agencies immediately after its execution.

According to the Notice of the People's Bank of China on the Adjustment of Commercial Bank Housing Loan Policies and the Interest Rate of Excess Reserve Deposit (關於調整商業銀行住房信貸政策和超額準備金存款利率的通知), promulgated by the PBOC on March 16, 2005, starting from March 17, 2005, the preferential mortgage loan interest rate was replaced by the commercial loan interest rate subject to certain restrictions on the lower limit on such interest rates. In the urban areas or cities with rapidly increased real estate prices, the minimum down payment ratio for individual housing loans was adjusted from 20% to 30%.

On May 24, 2006, the State Council forwarded the Opinions of the Ministry of Construction and Other Departments on Adjusting the Housing Supply Structure and Stabilization of Property Prices (關於調整住房供應結構穩定住房價格意見的通知). Such opinions reiterated the existing measures and ushered in additional measures that aim to further curb rapid increases in property prices in large cities and to promote healthy development of the PRC property market. These measures include:

- requiring that at least 70% of the land supply approved by a local government for residential property development for any given year must be used for developing low-to medium-cost and small-to medium-sized units and low-cost rental properties;
- requiring that at least 70% of residential projects approved or constructed on or after June 1, 2006 must consist of units with a unit floor area of less than 90 sq.m. per unit and that projects which have received approvals prior to this date but have not obtained construction permits must adjust their planning in order to be in conformity with this new requirement, with the exception that municipalities under direct administration of the PRC central government, such as Beijing, Chongqing and Shanghai, provincial capitals and certain other cities may deviate from such ratio under special circumstances upon approval from the Ministry of Construction;
- increasing the minimum amount of down payment from 20% to 30% of the purchase price of the underlying property if the underlying property has a unit floor area of 90 sq.m. or more, effective from June 1, 2006;
- prohibiting commercial banks from lending to real estate developers with an internal capital ratio, calculated by dividing the internal funds by the total project capital required for the relevant projects, of less than 35%, restricting the grant or extension of revolving credit facilities to property developers holding a large amount of idle land and vacant commodity properties, and prohibiting commercial banks from accepting commodity properties which have been vacant for more than three years as security for their loans; and
- imposing a business tax levy on the entire sales proceeds from transfer of properties if the holding period is shorter than five years, effective from June 1, 2006, as opposed to two years when such levy was initially implemented in June 2005, and allowing such business tax to be levied on the difference between the price for such re-sale and the original purchase price in the event that an individual transfers a property other than an ordinary residential property after five years from his/her date of purchase.

On July 11, 2006, MOC, NDRC, MOFCOM, PBOC, the State Administration for Industry and Commerce, and SAFE jointly issued an Opinion on Regulating the Access and Management of Foreign Capital in the Real Estate Market (關於規範房地產市場外資準入和管理的意見), or the 171

Opinion. The 171 Opinion aims to tighten access by foreign capital to the PRC real estate market and to restrict property purchases in China by foreign institutions or individuals. It provides, among other things, that a foreign institution or individual must establish a foreign-invested enterprise in order to purchase real property in China if the property is not intended for self use. The registered capital of such foreign-invested enterprise must amount to at least 50% of its total investments in PRC real properties if the amounts of such investments exceed US\$10 million. Branches and representative offices of foreign institutions in China and foreign individuals who work or study in China for more than one year may purchase real property for their own use but not for any other purposes. In addition, foreign institutions which have no branches or representative offices in China or foreign individuals who work or study in China for less than a year are prohibited from purchasing any real property in China.

On September 1, 2006, SAFE and MOC jointly issued a Notice in Respect of Foreign Exchange Issues 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), or the 47 Notice, to implement the 171 Opinion. The 47 Notice provides specific procedures for purchasing real properties by foreign institutions and foreign individuals. The 47 Notice also forbids a foreign-invested real estate enterprise to apply for overseas loans if it has failed to pay its registered capital in full or failed to obtain the land use rights certificates, or its own capital funds do not reach 35% of the total investment for the project.

On September 30, 2007, the Ministry of Land and Resources issued the Notice on Implementation of the State Council's Certain Opinions on Resolving Difficulties and Further Strengthening Macro-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), pursuant to which at least 70% of the land supply arranged by the relevant land administration authority at city or county level for residential property development for any given year must be used for developing low-to medium-cost and small-to medium-sized units, low-cost rental properties and affordable housing.

On October 22, 2008, the PBOC issued the Notice on Extending the Downward Range of the Interest Rate for Commercial Personal Home Loans and Supporting Residents in First-time Purchase of Ordinary Residential Homes (擴大商業性個人住房貸款利率下浮幅度支援居民首次購買普通住房的通知), pursuant to which, since October 27, 2008, the bottom limit of the interest rate applicable to commercial personal home loans has been extended, the minimum amount of down payment of first-time home buyers has been adjusted to 20% and the interest rate applicable to individual housing loans financed by provident fund has been also reduced.

Regarding deed tax, pursuant to the Notice on Adjustment of Preferential Policies Regarding Deed Tax and Individual Income Tax Incurred in Transfer of Real Property (財政部、國家稅務總局、住房和城鄉建設部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) jointly promulgated by the Ministry of Finance, State Administration of Taxation and MOHURD on September 29, 2010 and enforced on October 1, 2010, in the case that an individual purchases an ordinary house which is the only house for the family (taking into account the purchaser, the spouse and minor children), the deed tax is reduced by half; in the case that an individual purchases an ordinary house with a GFA of 90 sq.m. or less, and which is the only house for the family (taking into account the purchaser, the spouse and minor children), the deed tax is levied at a rate of 1%.

On December 20, 2008, the General Office of the State Council issued the Several Opinions on Facilitating the Healthy Development of the Real Estate Market (關於促進房地產市場健康發展的若干意見), which aims to, among other things, encourage the consumption of ordinary residences and

support the real estate developer in handling the market change. Pursuant to this opinion, in order to encourage the consumption of ordinary residences, from January 1, 2009 to December 31, 2009, business tax is imposed on the full amount of the sale income upon the transfer a non-ordinary residence by an individual within two years from the purchase date. For the transfer of a non-ordinary residence which is more than two years from the purchase date and ordinary residence which is within two years from the purchase date, the business tax is to be levied on the difference between the sale income and the purchase price. In the case of an ordinary residence, the business tax is exempted if that transfer occurs after two years from the purchase date. Furthermore, individuals with an existing ordinary residence that is smaller than the average size for their locality may buy a second ordinary residence under favorable loan terms similar to first-time buyers. In addition, support for real estate developers dealing with the changing market is to be provided by increasing credit financing services to “low-to-medium-level price” or “small-to-medium-size “ordinary commercial housing projects, particularly those under construction, and providing financial support and other related services to real estate developers with good credit standing for merger and acquisition activities.

In January 2010, the PRC government imposed more stringent requirements on mortgage loans by requiring purchasers who have already purchased a residence through mortgage financing to pay a minimum down payment of 40% of the purchase price for any additional residences. In April 2010, the State Council issued the Notice on Firmly Preventing Property Price from Increasing Too Rapidly in Certain Cities (關於堅決遏制部分城市房價過快上漲的通知) which, among other things, provides that the minimum down payment for the first property that is larger than 90 sq.m. shall be not less than 30% of the purchase price, down payment for the second property bought with mortgage loans shall be not less than 50% of the purchase price and the loan interest rate shall be not lower than 110% the benchmark lending rate published by the PBOC. In certain areas where commodity residential properties are in short supply and prices rise too quickly, the banks may suspend mortgage loans for the third or further properties bought by mortgage applicants or to non-residents who cannot provide any proof of tax or social insurance payment for more than one year.

On January 7, 2010, the General Office of the State Council issued a Circular on Facilitating the Stable and Healthy Development of the Property Market (關於促進房地產市場平穩健康發展的通知), which adopted a series of measures to strengthen and improve the regulation of the property market, stabilize market expectation and facilitate the stable and healthy development of the property market. Additionally, it explicitly requires a family (including a borrower, his or her spouse and children under 18), who has already purchased a residence through mortgage financing and have applied to purchase a second or more residences through mortgage financing, to pay a minimum down payment of 40% of the purchase price.

On February 11, 2010, CBRC issued a Notice on Relevant Issues on Strengthening Administration of Real Estate Trust Business of Trust Companies (關於加強信託公司房地產信託業務監管有關問題的通知), which provides that, among other things, real estate projects must meet the following conditions to be eligible for loan financing from trust companies: (1) real estate projects must have obtained land use rights certificates, construction land planning permits, construction works planning permits and construction permits; (2) developers or their controlling shareholders must be qualified as class 2 developers or higher; (3) the capital ratio of the project must satisfy the minimum requirements set by relevant authorities; and (4) trust companies may not provide trust funds to finance the land reserves.

On April 17, 2010, the State Council issued the Notice on Resolutely Containing the Excessive Hike of Property Prices in Some Cities (堅決遏制部分城市房價過快上漲的通知), or the April 2010 Notice, which provides that: (i) if a first-time home buyer (including a borrower, his or her spouse and children under 18) buys a residence with a unit floor area of more than 90 sq. for self use, the minimum down payment shall be at least 30%; (ii) if a second-time home buyer uses mortgage financing, the minimum down payment shall be at least 50% of the purchase price with a minimum mortgage lending interest rate of 110% of the benchmark rate; (iii) if a third-time or more home buyer uses mortgage financing, the minimum down payment and interest rate thereof will be further raised. The April 2010 Notice further requires that in cities where property prices are overly high with excessive price hikes and strained housing supply, commercial banks may suspend extending bank loans for third-time or more home buyers in light of risk exposure.

On May 26, 2010, MOHURD, the PBOC and CBRC jointly issued the Circular on Regulating the Criteria for Identifying the Second Housing Unit in Connection with Commercial Mortgage Loans (關於規範商業性個人住房貸款中第二套住房認定標準的通知), which provides, among other things, that the number of housing units owned by an individual purchaser who is applying for mortgage loans shall be determined by taking into account all housing units owned by the family members of such purchaser (including the purchaser and such purchaser's spouse and children under the age of 18), and that second-time or more purchasers of housing units will be subject to different credit policies when applying for mortgage loans.

On November 4, 2010, MOHURD and SAFE jointly promulgated the Notice on Further Regulating Administration of Purchase of Houses by Overseas Institutions and Individuals (關於進一步規範境外機構和個人購房管理的通知), pursuant to which an overseas individual can only purchase one house for self-use within the PRC, and an overseas institution which has established a branch or representative office in the PRC can only purchase non-residential houses for business use in the city where it is registered within the PRC.

On January 26, 2011, General Office of the State Council issued Notice of the State Council on Issues Related to Further Enhancing the Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知). According to this Notice,

- for those households who purchase a second set of housing through loan, the down payment ratio shall not be lower than 60%. The loan interest shall not be lower than 1.1 times the benchmark interest rate.
- all municipalities, cities specifically designated in the State plan, provincial capitals and cities in which housing prices are excessively high or rising rapidly are to formulate and implement measures for restriction of housing purchases strictly within a specified period. In principle, households with local registered residence who have already owned one set of housing and households without local registered residence who are able to produce a local tax payment certificate or a proof of social insurance contribution for a certain number of years shall be restricted to purchasing one set of housing (including newly constructed commodity housing and second-hand housing). In respect to households with local registered residence who have already owned two sets or more housing, households without local registered residence who have already owned one set and more housing, and households without local registered residence who are unable to provide a local tax

payment certificate or proof of social insurance contribution for a certain number of years, no houses shall be sold to them within their own administrative area for the time being.

As of November 1, 2011, the people's governments of 47 cities, such as Beijing, Shanghai, Guangzhou, Tianjin, Nanjing, Chengdu, Wuxi, Qingdao, Hangzhou, Xi'an, Changzhou, Shengyang and Dalian, have respectively promulgated local measures for restriction of housing purchases to implement the Notice of the State Council on Issues Related to Further Enhancing the Regulation and Control of the Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知).

On January 27, 2011, Shanghai Municipal Government issued Provisional Measure on levying of Property Tax on Part of Individual Residential Properties in Shanghai on a Trial Basis (上海市開展對部分個人住房徵收房產稅試點的暫行辦法). According to this provisional measure, property tax shall be imposed on any second or more residential property purchased by Shanghai residents and any residential property purchased by non-Shanghai residents from January 28, 2011. For Shanghai residents who purchase the second residential property after January 28, 2011, if the construction area per capita of all residential properties owned by the family is no more than 60 sq.m. (the "tax-free construction area"), such newly purchased residential property could be temporarily exempted from property tax; if the construction area per capita of all residential properties owned by the family is more than 60 sq.m., property tax will be levied on the construction area of the newly purchased residential properties, which exceeds the tax-free construction area.

On September 29, 2014, the People's Bank of China and the China Banking Regulatory Commission promulgated the Circular on Further Improving Residential Housing Financial Services (中國人民銀行、中國銀行業監督管理委員會關於進一步做好住房金融服務工作的通知), which stipulates, among other things, that for a household that borrows a loan to purchase its first ordinary owner-occupied residential property, the minimum down payment ratio of such loan shall be 30%, and the floor of the loan interest rate shall be at 0.7 times the benchmark lending rate. Where a household that owns an existing property for which the property purchase loan has been paid off applies for a new loan to purchase another ordinary commodity housing for the purpose of improving living conditions, the relevant banking financial institution shall adopt the lending policies applicable to the first owner-occupied residential property.

On March 30, 2015, the Ministry of Finance and the State Administration of Taxation issued the Notice on the Adjustment of Policy of Business Tax on Re-sale of Personal Residential Properties (財政部、國家稅務總局關於調整個人住房轉讓營業稅政策的通知) which repeals the Notice on Adjusting the Policy of Business Tax on Re-sale of Personal Residential Properties promulgated on January 27, 2011 and provides that transfer of residential properties by individuals within two years of purchase is subject to business tax based on the sales income, while the business tax levied on the transfer of non-ordinary residential properties by individuals after two years of purchase is based on the difference between the sales income and the purchase price. In the case of an ordinary residence, business tax is exempted if that transfer occurs after two years from the purchase date.

On March 30, 2015, Circular of the People's Bank of China, the Ministry of Housing and Urban-rural Development and the China Banking Regulatory Commission promulgated on Issues concerning Individual Housing Loan Policies (中國人民銀行、住房城鄉建設部、中國銀行業監督管理委員會關於個人住房貸款政策有關問題的通知). According to this regulation, where the household of a resident who owns one home of which relevant housing loan has not been settled files a new application for a commercial individual housing loan for purchasing an ordinary home to be used as its owner's residence for the purpose of improving its living conditions, the minimum down payment ratio is adjusted to not less than 40%.

On September 24, 2015, PBOC and CBRC jointly issued the Notice of the People's Bank of China and the China Banking Regulatory Commission on Further Improving the Relevant Issues concerning the Differential Housing Credit Policy (中國人民銀行、中國銀行業監督管理委員會關於進一步完善差別化住房信貸政策有關問題的通知), which provides that in cities where "property purchase control measures" are not implemented the minimum down payment ratio of a personal housing commercial loan obtained by a household to finance the purchase of the first ordinary residential property is adjusted to 25%. On September 29, 2015, MOHURD, Ministry of Finance and People's Bank of China jointly issued the Notice of the Ministry of Housing and Urban-Rural Development, the Ministry of Finance and the People's Bank of China on Effectively Raising the Efficiency of Housing Provident Funds Use (住房和城鄉建設部、財政部、中國人民銀行關於切實提高住房公積金使用效率的通知), which took effect on October 8, 2015. The actual amount that can be borrowed by housing provident funds shall be increased. A city with districts where less than 85% of housing provident funds are used by the end of August 2015 shall take into comprehensive consideration the local housing price level, loan demand and borrowers' repayment abilities to increase the actual amount of personal housing loans that can be borrowed by housing provident funds. Under the premise of ensuring the basic living expenses of a borrower, the maximum monthly loan repayment by the borrower shall be controlled within 50% to 60% of his/her monthly income. The loan repayment period may be extended to five years after the borrower's statutory retirement age, subject to a maximum of 30 years. The business of monthly transfer of housing provident funds for loan service shall be pushed forward.

On February 1, 2016, PBOC and CBRC jointly issued the Circular of the People's Bank of China and China Banking Regulatory Commission on Issues Concerning Adjusting the Individual Housing Loan Policies (中國人民銀行、中國銀行業監督管理委員會關於調整個人住房貸款政策有關問題的通知). The circular specifies that, in principle, in the cities where property purchase control measures are not implemented, the minimum down payment ratio of a personal housing commercial loan obtained by a household to finance the purchase of its first ordinary residential property shall be 25% of the purchase price, however local authorities have been allowed to adjust such down payment ratio to 20%. Meanwhile, with respect to a household that already owns a residential property with unsettled personal housing commercial loan and applies for another personal housing commercial loan to purchase another ordinary residential property for the purpose of improving living conditions, the minimum down payment ratio for that purchase shall be at least 30% of the corresponding purchase price.

On October 10, 2016, the MOHURD issued the Circular on Further Regulating Operations of Real Estate Developers to Safeguard the Real Estate Market Order (關於進一步規範房地產開發企業經營行為維護房地產市場秩序的通知) ("Circular 223"), which requires that improper operations of real estate developers shall be investigated and punished according to law. The improper operations include releasing false house information and advertisements, maliciously pushing higher and artificially inflating house prices by fabricating or spreading information on rise in property prices and others.

ENVIRONMENTAL PROTECTION

The laws and regulations governing the environmental protection requirements for real estate development in China include the PRC Environmental Protection Law (中華人民共和國環境保護法), the PRC Prevention and Control of Noise Pollution Law (中華人民共和國環境噪聲污染防治法), the PRC Environmental Impact Assessment Law (中華人民共和國環境影響評價法) and the PRC Administrative Regulations on Environmental Protection for Development Projects (中華人民共和國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 before the relevant authorities grant approval for the commencement of construction of the property development. In addition, upon completion of the property development, the relevant environmental authorities will also inspect the property to ensure compliance with the applicable environmental protection standards and regulations before the property can be delivered to the purchasers.

FOREIGN EXCHANGE CONTROLS

Under the PRC Foreign Currency Administration Rules (中華人民共和國外匯管理條例) promulgated in 1996 and revised in 1997 and as amended in 2008 and various regulations issued by SAFE and other relevant PRC government authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade-related receipts and payments and payment interest and dividend. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside China for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from SAFE or its local office. Payments for transactions that take place within China must be made in Renminbi. Unless otherwise approved, PRC companies may repatriate foreign currency payments received from abroad or retain the same from abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of the State. For foreign exchange proceeds under the capital accounts, approval from SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the rules and regulations of the State.

On June 20, 1996, the PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定) (the “Settlement Regulations”) which became effective on July 1, 1996. The Settlement Regulations superseded the Provisional Regulations and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, the PBOC published the Announcement on the Implementation of Foreign Exchange Settlement and Sale Banks by Foreign-invested Enterprises (外商投資企業實行銀行結售匯工作實施方案). The announcement permits foreign-invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange, and specialized accounts for capital account receipts and payments at designated foreign exchange banks. On April 13, 2006, the PBOC promulgated the Announcement [2006] No. 5. The announcement provides that the system for opening, amending and closing current account-related foreign exchange accounts by enterprises

shall be changed from one requiring advance examination and approval to one in which matters shall be handled directly by banks in line with foreign exchange control requirements and commercial practice, and shall be reported to the foreign exchange bureau for its records. The limits on current account-related foreign exchange accounts of enterprises shall be increased. On the same day, SAFE issued a Notice on Adjusting the Policies Concerning the Administration of Current Foreign Exchange Accounts (關於調整經常項目外匯管理政策的通知). The notice abolished the advance examination for opening of current account-related foreign exchange accounts and improved the limits on current account-related foreign exchange accounts.

On July 21, 2005, the PBOC announced that, beginning on 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.

Save for foreign-invested enterprises or other enterprises which are specially exempted by relevant regulations, all entities in China (except for foreign trading companies and production enterprises having import and export rights, which are entitled to retain part of foreign exchange income generated from their current account transactions and to make payments using such two retained foreign exchanges in their current account transactions or approved capital account transactions) must sell their foreign exchange income to designated foreign exchange banks. Foreign exchange income from loans issued by organizations outside the territory or from the issuance of bonds and shares is not required to be sold to designated banks, but may be deposited in foreign exchange accounts with designated banks.

Enterprises in China (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items may, without the approval of SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, upon presentation of valid receipts and proof. Foreign-invested enterprises which need foreign currencies for the distribution of profits to their shareholders, and Chinese enterprises which, in accordance with regulations, are required to pay dividends to shareholders in foreign currencies, may with the approval of board resolutions on the distribution of profits, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction and prior approval from SAFE or its competent branch.

In January and April 2005, SAFE issued two regulations that require PRC residents to register with and receive approvals from SAFE in connection with their offshore investment activities. SAFE also announced that the purpose of these regulations is to achieve the proper balance of foreign exchange and the standardization of all cross-border flows of funds.

On September 1, 2006, SAFE and Ministry of Construction jointly issued a Notice 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) which was amended on May 4, 2015. The notice provides: (i) where a foreign-invested real estate enterprise fails to acquire a state-owned land use right certificate or to make its capital fund for a development project reach 35% of the total investment to the project, the foreign exchange bureau will not handle its foreign debt registration or approve the conversion of foreign debt into Renminbi; (ii) where a foreign organization or individual acquires a

domestic real estate enterprise, if fail to pay the transfer price in a lump sum by their own fund, the foreign exchange bureau will not handle the registration of foreign exchange income from transfer of equities; (iii) Chinese and foreign investors of a foreign-invested real estate enterprise shall not reach an agreement including any clause which promises 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 modification of foreign-invested enterprise; and (iv) funds in a foreign exchange account exclusive to foreign investors opened by a foreign organization or individual in a domestic bank shall not be used for real estate development or operation.

On December 25, 2006, PBOC promulgated the Measures for the Administration of Individual Foreign Exchange (個人外匯管理辦法). The measures use category administration to classify the individual foreign exchange operations as domestic and overseas by participants in the transaction, and current accounts and capital accounts by the nature of the transaction. The measures set the annual total amount of foreign exchange for settlement of individuals and for purchase of domestic individuals, and provide different procedures for individuals who set foreign exchange over the annual total amount and domestic individuals who purchase foreign exchange over the annual total amount according to current accounts items and capital accounts items.

On January 5, 2007, SAFE promulgated the Detailed Rules for the Implementation of the Measures for the Administration of Individual Foreign Exchange (個人外匯管理辦法實施細則) which was amended on May 29, 2016. The Detailed Rules provide, amongst others, that (i) the annual total amount of foreign exchange for settlement of individuals and for purchase of domestic individuals is US\$50,000; (ii) domestic individuals who engage in external direct investment satisfying the relevant rules shall not only get approval from the foreign exchange bureau, but also complete the overseas investment foreign exchange registration procedures before they can purchase foreign exchange or remit with their own foreign exchange; (iii) domestic individuals can engage in financial investment such as overseas fixed-revenue right-interest, etc. through qualified domestic institutional investors such as banks and fund management companies; (iv) in case domestic individuals engage in such foreign exchange operations as an employee stock ownership plan of an overseas listed company or subscription option program, they can only deal with such options after completing registration with the foreign exchange bureau through their company or domestic agency institutions; and (v) the administration of foreign exchange on overseas loans, debts, guarantees, etc. for domestic individuals will be gradually opened.

On August 5, 2008, the State Council further amended the PRC Regulations on the Control of Foreign Exchange (中華人民共和國外匯管理條例), under which several provisions have been revised, including:

- removing the compulsory requirement to repatriate foreign currency payments received from abroad by permitting the foreign currency payments to be repatriated back or deposited abroad in accordance with the required conditions and periods;
- removing the compulsory requirement to convert the foreign currency proceeds in the current account into RMB by permitting those proceeds in the current account to be reserved or sold to financial institutions in accordance with the rules;

- allowing domestic institutions and individuals to invest abroad directly or indirectly, subject to the foreign exchange registration and approval or filing as provided by other laws and regulations; and
- adopting the market-determined and managed floating RMB exchange rates system.

On July 4, 2014, SAFE issued Notice of the State Administration of Foreign Exchange on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Investing and Financing Overseas and Roundtrip Investment via Special Purpose Vehicles (國家外匯管理局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) (“Circular 37”), repealing the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse 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) promulgated by SAFE in October 2005. Circular 37 requires PRC residents, including PRC individuals and institutions, to register with SAFE or its local branches before it injects assets or equity interests in an offshore special purpose vehicle which is directly established or controlled by the PRC residents for the purpose of overseas investment and financing. In addition, such PRC residents must update their foreign exchange registrations with SAFE when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, share transfers or exchanges, or mergers or divisions.

On March 30, 2015, SAFE promulgated Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign Invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) (“Circular 19”), which became effective on June 1, 2015. On June 9, 2016, SAFE promulgated the Circular of the State Administration of Foreign Exchange on Reforming and Regulating the Management Policies Regarding the Settlement under Capital Account (國家外匯管理局關於改革和規範資本專案結匯管理政策的通知) (“Circular 16”). Pursuant to the Circular 19 and the Circular 16, the foreign exchange capital of foreign-invested enterprises shall be subject to the discretionary foreign exchange settlement, which refers to that the foreign exchange capital in the capital account of foreign-invested enterprises for which the confirmation of rights and interests of monetary contribution by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) has been handled can be settled at the banks based on the actual operation needs of the enterprises. The proportion of discretionary settlement of foreign exchange capital of foreign-invested enterprises is temporarily determined as 100%. SAFE can adjust the aforementioned proportion in due time based on the situation of international balance of payments. In addition, the circular facilitates foreign-invested enterprises in carrying out among others domestic equity investment with the capital obtained from foreign exchange settlement.

On June 9, 2016, SAFE issued the Circular on Reforming and Regulating the Policies on the Control over Foreign Exchange Settlement of Capital Account (關於改革和規範資本項目結匯管理政策的通知) which provides that, among others, (i) foreign invested enterprise may go through the foreign exchange settlement for their foreign debts at its own discretion; (ii) foreign exchange receipts of capital account, including foreign exchange capital, foreign debts, and repatriated funds raised through overseas listing, subject to discretionary settlement as expressly prescribed in the relevant policies, provisionally, may be settled up to 100% with banks according to the actual need of domestic enterprises for business operation and (iii) foreign exchange receipts of capital account

and the receipt in Renminbi obtained from foreign exchange settlement shall not be (a) directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by national laws and regulations; (b) directly or indirectly used for investment in securities unless otherwise provided by law and regulations; (c) used for the granting of loans to non-affiliated enterprises unless otherwise permitted in business scope of licenses; and (d) except for real estate enterprises, used for the construction or purchase of real estate for purposes other than self-use.

MAINLAND CHINA TAXATION

Because virtually all of our business operations are in mainland China and because we carry out these business operations through operating subsidiaries and joint ventures organized under the PRC law, our PRC operations and our operating subsidiaries and joint ventures in mainland China are subject to PRC tax laws and regulations, which may indirectly affect investment in our Notes.

Dividends from Our PRC Operations

Under the PRC tax laws effective prior to January 1, 2008, dividends paid to us by our PRC subsidiaries or joint ventures were exempt from PRC income tax. However, pursuant to the EIT Law, effective on January 1, 2008 and amended on February 24, 2017, and its implementation rules which became effective on January 1, 2008, dividends payable by foreign-invested enterprises, such as subsidiaries and joint ventures in China, to their foreign investors may be subject to a withholding tax at a rate of 10% unless any lower treaty rate is applicable.

Under the EIT Law and its implementation rules, enterprises established under the laws of foreign jurisdictions but whose “de facto management body” is 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 Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例), “de facto management bodies” are defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. If a foreign enterprise is held to be a PRC resident enterprise for PRC tax purposes by relevant PRC tax authorities, the dividends (not including investment income from stocks issued publicly by other PRC resident enterprises and traded on stock exchanges where the holding period is less than twelve months consecutively) received by this enterprise from its direct equity investment in other PRC resident enterprises should be exempt from enterprise income tax; if this enterprise is held to be a non-resident enterprise, the dividends received from its direct equity investment in PRC resident enterprises shall be subject to enterprise income tax (withholding tax) at the rate of 10%, unless a preferential rate is provided by applicable tax treaties or arrangements entered into between the PRC and the country or region where this enterprise is established. Because this tax law is new and its implementation rules are newly issued, there is uncertainty as to how this new law and its implementation rules will be interpreted or implemented by relevant tax bureaus.

OUR OPERATIONS IN MAINLAND CHINA

Our subsidiaries and joint ventures through which we conduct our business operations in mainland China are subject to PRC tax laws and regulations.

Deed Tax. Under the PRC Interim Regulation on Deed Tax (中華人民共和國契稅暫行條例) enacted by the State Council on July 7, 1997 and enforced on October 1, 1997, a deed tax is chargeable to transferees of land use rights and/or ownership in real properties within the territory of mainland China. These taxable transfers include:

- grant of use right of state-owned land;
- sale, gift and exchange of land use rights, other than transfer of right to manage rural collective land; and
- sale, gift and exchange of real properties.

Deed tax rate is between 3% to 5% subject to determination by local governments at the provincial level in light of the local conditions. In October 2008, the Ministry of Finance and the State Administration of Taxation issued the Notice on the Adjustments to Taxation on Real Property Transactions (財政部國家稅務總局關於調整房地產交易環節稅收政策的通知), pursuant to which, since November 1, 2008, the rate of deed tax has been temporarily reduced to 1% for a first-time home buyer of an ordinary residence with a GFA less than 90 sq.m.; individuals who sell or purchase residential properties are temporarily exempted from stamp duty and who sell residential properties are temporarily exempted from land value-added tax. However, the aforesaid preferential policy regarding deed tax has been replaced by the Notice on Adjustment of Preferential Policies Regarding Deed Tax and Individual Income Tax Incurred in Transfer of Real Property jointly promulgated by the Ministry of Finance, the State Administration of Taxation and MOHURD (財政部、國家稅務總局、住房和城鄉建設部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) on September 29, 2010 and enforced on October 1, 2010, pursuant to which, in the case that an individual purchases an ordinary house which is the only house for the family (including the purchaser, the spouse and minor children), deed tax is reduced by half; in the case that an individual purchases an ordinary house with a GFA of 90 sq.m. or below which is the only house for the family, deed tax is levied at a rate of 1%.

Enterprise Income Tax. Prior to the EIT 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 EIT Law, effective from January 1, 2008 and amended on February 24, 2017, a unified enterprise income tax rate is set at 25% for both domestic enterprises and foreign-invested enterprises. The EIT Law and its implementation rules provide certain relief to enterprises that were established prior to March 16, 2007, including (1) continuously enjoying the preferential income tax rate during a five-year transition period if such enterprises are entitled to preferential income tax rate before the effectiveness of the EIT Law; (2) continuously enjoying the preferential income tax rate until its expiry if such enterprises are entitled to tax holidays for a fixed period under the relevant laws and regulations. However, where the preferential tax treatment has not commenced due to losses or accumulated loss not being fully offset, such preferential tax treatment shall be deemed to commence from January 1, 2008 and expire on December 31, 2013. In addition, dividends from PRC subsidiaries to their foreign shareholders are subject to a withholding tax at a rate of 10% unless any lower treaty rate is applicable. However, under the EIT Law and its implementation rules, enterprises established under the laws of foreign jurisdictions but whose “de facto management body” is located in China are treated as “resident enterprises” for PRC tax purposes, and will be subject to PRC income tax on their worldwide income. Dividends from PRC subsidiaries may be excluded from such taxable worldwide income. Under the implementation rules of the EIT Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. There is uncertainty as to how this new law and its implementation

rules will be interpreted or implemented by relevant tax bureaus. According to the Arrangements in respect of Prevention of Double Taxation and Tax Evasion between Hong Kong and PRC (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), the PRC tax resident enterprise who distributes dividends to its Hong Kong shareholders should be levied enterprise income tax according to PRC laws; however, if the beneficiary of the dividends is a Hong Kong tax resident who directly holds not less than 25% equity of the aforesaid enterprise (i.e., the dividends distributor), the tax levied should be 5% of the distributed dividends. An approval from the local tax authority is required in order to benefit from the lower treaty rate and such lower rate may be denied if the recipient company is a company with no business substance.

On April 11, 2008, the State Administration of Taxation issued the Notice of the Prepayment of Enterprise Income Tax of the Real Estate Development Enterprises (關於房地產開發企業所得稅預繳問題的通知), requiring real estate developers to prepay enterprise income tax by quarter (or month) according to the current actual profit. According to the Notice, for the incomes generated from the pre-sale before completion of the construction of buildings for residential or commercial use or other kinds, the tax prepayments thereof shall be paid upon calculation of the estimated quarterly or monthly profit according to the pre-set estimated profit rate, which shall be readjusted according to the actual profit after the completion of the construction of the buildings and settlement of the taxable cost.

Land Appreciation Tax. Under the PRC Interim Regulation on Land Appreciation Tax (中華人民共和國土地增值稅暫行條例) of 1994 which was amended on January 8, 2011, and its implementation rules of 1995, LAT applies to both domestic and foreign investors in real properties in mainland China, irrespective of whether they are corporate entities or individuals. The tax is payable by a taxpayer on the appreciation value derived from the transfer of land use rights, buildings or other facilities on such land, after deducting the deductible items that include the following:

- payments made to acquire land use rights;
- costs and charges incurred in connection with land development;
- construction costs and charges in the case of newly constructed buildings and ancillary facilities;
- assessed value in the case of old buildings and facilities;
- taxes paid or payable in connection with the transfer of land use rights, buildings or other facilities on such land; and
- other deductible items allowed by the Ministry of Finance.

The tax rate is progressive and ranges from 30% to 60% of the appreciation value as compared to the “deductible items” as follows:

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

Appreciation value**LAT rate**

Portion over 100% but not more than 200% of the sum of deductible items	50%
Portion over 200% of the sum of deductible items	60%

According to the requirements of the LAT Provisional Regulations, the LAT Detailed Implementation Rules and the Notice issued by the MOF in respect of the Levy and Exemption of LAT for Development and Transfer Contracts signed before January 1, 1994 (財政部關於對一九九四年一月一日前簽訂開發及轉讓合同的房地產徵免土地增值稅的通知), which was announced by MOFCOM and State Administration of Taxation on January 27, 1995, LAT shall be exempted under any one of the following circumstances:

- Taxpayers constructing ordinary residential properties for sale (i.e., residences built in accordance with the local standard for residential properties used by the general population, excluding deluxe apartments, villas, resorts and other high-end premises), where the appreciation amount does not exceed 20% of the sum of deductible items;
- Real estate taken over or the grant of state-owned land use right of repossessed land which were approved by the government according to laws due to the construction requirements of the state; and
- Due to redeployment of work or improvement of living standards, transfers by individuals of originally self-used residential properties, with five years or longer of self-used residence and with tax authorities' approval.

According to the notice, the LAT regulation does not apply to the following transfers of land use rights:

- real estate transfer contracts executed before January 1, 1994; and
- first-time transfers of land use rights and/or premises and buildings during the five years commencing on January 1, 1994 if the land grant contracts were executed or the development projects were approved before January 1, 1994 and the capital has been injected for the development in compliance with the relevant regulations.

After the enactment of the LAT regulations and the implementation rules in 1994 and 1995, respectively, due to the long period of time typically required for real estate developments and their transfers, many jurisdictions, while implementing these regulations and rules, did not require real estate development enterprises to declare and pay the LAT as they did other taxes. Therefore, in order to assist the local tax authorities in the collection of LAT, the Ministry of Finance, State Administration of Taxation, Ministry of Construction and State Land Administration Bureau separately and jointly issued several notices to reiterate that, after the assignments are signed, the taxpayers should declare the tax to the local tax authorities where the real estate is located, and pay the LAT in accordance with the amount as calculated by the tax authority and within the time period as required. For those who fail to provide proof with respect to the tax paid or the tax exemption from the tax authorities, the real estate administration authority will not process the relevant title change procedures, and will not issue the property ownership certificates.

The State Administration of Taxation issued a further notice in July 2002 to require local tax authorities to require prepayment of LAT on basis of proceeds from pre-sale of real estate.

In December 2006, the State Administration of Taxation issued a Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (國家稅務總局關於房地產開發企業土地增值稅清算管理有關問題通知), which came into effect on February 1, 2007. The notice required settlement of LAT liabilities by real estate developers. Provincial tax authorities are given authority to formulate their implementation rules according to the notice and their local situation.

To further strengthen LAT collection, in May 2009, the State Administration of Taxation released the Rules on the Administration of the Settlement of Land Appreciation Tax (國家稅務總局關於土地增值稅清算管理規程), which come into force on June 1, 2009.

In May 2010, the State Administration of Taxation issued the Circular on Settlement of Land Appreciation Tax (國家稅務總局關於土地增值稅清算有關問題的通知) to strengthen the settlement of LAT. The circular clarifies certain issues with respect to the calculation and settlement of LAT, such as (i) recognition of the revenue upon the settlement of LAT; and (ii) the deduction of fees incurred in connection with the property development.

In May 2010, the State Administration of Taxation issued the Notice on Strengthening the Collection of Land Appreciation Tax (國家稅務總局關於加強土地增值稅徵管工作的通知), which requires that except for affordable residences the minimum LAT prepayment rate shall be 2% for provinces in the eastern region of China, 1.5% for provinces in the central and northeastern regions, and 1% for provinces in the western region. According to the notice, the local tax bureaus shall determine the applicable LAT prepayment rates based on the property type.

Urban Land Use Tax. Pursuant to the PRC Interim Regulations on Land Use Tax in respect of Urban Land (中華人民共和國城鎮土地使用稅暫行條例) promulgated by the State Council in September 1988, land use tax in respect of urban land is levied according to the area of relevant land. The annual tax on urban land was between RMB0.2 and RMB10 per sq.m. An amendment by the State Council in December 2006 changed the annual tax rate to between RMB0.6 and RMB30 per sq.m. of urban land. The changed rates in detail are as follows:

- between 1.5 yuan and 30 yuan in large cities;
- between 1.2 yuan and 24 yuan in medium cities;
- between 0.9 yuan and 18 yuan in small cities; and
- between 0.6 yuan and 12 yuan in county towns, towns/bases operated under an organizational system, and industrial and mining districts.

According to the provisional regulations, land use tax shall be collected from foreign invested enterprises, foreign enterprises and foreign individuals.

On June 11, 2007, SAT issued the Notice on Canceling Certain Administrative Examination and Approval Items for Local Taxes (關於取消部分地方稅行政審批專案的通知), which came into force as of the date of its issuance. Under this Notice, certain preferential treatments of land use tax have been canceled as follows:

- for certain infrastructure construction projects, in particular the large-scale infrastructure construction projects supported by relevant national industry policies, which need large areas of land and long-term construction but without operational.
- revenue during the construction period, the exemption or reduction of land use tax may be granted by the taxation bureau at the provincial level based on the specified situations.
- for real estate development enterprises that have difficulty in paying the land use tax prior to the sale of commercial real estate, the exemption or reduction of land use tax may be granted by the taxation bureau at the provincial level based on the specified situations.
- the exemption or reduction of land use tax as a benefit for using land for port construction, electric power industry and coal industry.

Property Tax. Under the PRC Interim Regulations on Property Tax (中華人民共和國房產稅暫行條例) promulgated by the State Council in September 1986 and was amended on January 8, 2011, property tax applicable to domestic enterprises is 1.2% if it is calculated on the basis of the residual value of a building and 12% if it is calculated on the basis of the rental. The following categories of buildings shall be exempt from property tax:

- a building of governmental agencies, people's organizations and the armed forces for their own use;
- a building of institutions whose operating expenses are allocated by State finance departments for their own use;
- a building religious temples and shrines' parks and places of historic interest and scenic beauty for their own use;
- a building owned by individuals for non-business purposes; and
- tax exemption approved by the Ministry of Finance for other buildings.

And according to the Notice on Issues Relating to Assessment of Property Tax against Foreign-invested Enterprises and Foreign Individuals (關於對外資企業及外籍個人徵收房產稅有關問題的通知) promulgated by the Ministry of Finance and the State Administration of Tax on January 12, 2009, foreign-invested enterprises, foreign enterprises and foreign individuals are to have been levied the property tax (房產稅) since January 1, 2009.

On January 27, 2011, Shanghai Municipal Government issued the Provisional Measure on Levying of Property Tax on Part of Individual Residential Properties in Shanghai on a Trial Basis (上海市開展對部分個人住房徵收房產稅試點的暫行辦法). According to this Provisional Measure, property tax shall be imposed on any second or more residential property purchased by Shanghai residents and any residential property purchased by non-Shanghai residents from January 28, 2011.

For Shanghai residents who purchase the second residential property after January 28, 2011, if the construction area per capita of all residential properties owned by the family is no more than 60 sq.m. (the “tax-free construction area”), such newly purchased residential property could be temporarily exempted from property tax; if the construction area per capita of all residential properties owned by the family is more than 60 sq.m., property tax will be levied on the construction area of the newly purchased residential properties, which exceeds the tax-free construction area. The property tax will be provisionally based on 70% of the market price of the taxable residential property with the tax rate at 0.6%. For the taxable residential property whose market price per square meter is no more than two times last year’s average sales price of newly constructed commodity residential properties of Shanghai, the tax rate shall temporarily be 0.4%. In February 2011, the Shanghai municipal government announced that for taxable residential properties whose market price is no more than RMB28,426, the tax rate is 0.4%.

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

Municipal Maintenance Tax. Under the PRC Interim Regulations on Municipal Maintenance Tax (中華人民共和國城市維護建設稅暫行條例) promulgated by the State Council in 1985 and was amended on January 8, 2011, a taxpayer, whether an individual or otherwise, of consumption tax, value-added tax or business tax is required to pay municipal maintenance tax calculated on the basis of consumption tax, value-added tax and business 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 or county or town.

In October 2010, the State Council issued the Notice on Unification of the Application of Municipal Maintenance Tax and Education Surcharge by Domestic and Foreign Enterprises and Individuals (國務院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), pursuant to which, from December 1, 2010, municipal maintenance tax is applicable to both foreign-invested enterprises, foreign enterprises and foreign individuals as well as domestic enterprises and individuals.

Pursuant to the Notice on Relevant Issues of Imposition of Municipal Maintenance and Education Surcharge on Foreign-invested Enterprises promulgated by the Ministry of Finance and the State Administration of Taxation (財政部和國家稅務總局關於對外資企業徵收城市維護建設稅和教育費附加有關問題的通知) in November 2010, foreign-invested enterprises must pay municipal maintenance tax on any value-added tax, consumption tax and business tax incurred on or after December 1, 2010. However, foreign-invested enterprises were exempted from municipal maintenance tax on any value-added tax, consumption tax and business tax incurred before December 1, 2010.

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 in April 1986 and amended in 1990, August 2005 and January 2011, any taxpayer, whether an individual or otherwise, of value-added tax, business tax or consumption tax is liable for an education surcharge, unless such taxpayer is required

to pay a rural area education surcharge as provided by the Notice of the State Council on Raising Funds for Schools in Rural Areas. The Education Surcharge rate is 3% calculated on the basis of consumption tax, value-added tax and business tax.

Pursuant to the aforesaid Unification of Application of Municipal Maintenance Tax and Education Surcharge by Domestic and Foreign Enterprises and Individuals (國務院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), from December 1, 2010 an education surcharge is applicable to both foreign-invested enterprises, foreign enterprises and foreign individuals as well as domestic enterprises and individuals.

Pursuant to the aforesaid Notice on Relevant Issues of Imposition of Municipal Maintenance and Education Surcharge on Foreign-invested Enterprises (關於對外資企業徵收城市維護建設稅和教育費附加有關問題的通知), foreign-invested enterprises must pay an education surcharge on any value-added tax, consumption tax and business tax incurred on or after December 1, 2010. However, foreign-invested enterprises will be exempted from paying an education surcharge on any value-added tax, consumption tax and business tax incurred before December 1, 2010.

Value Added Tax. Pursuant to the Pilot Proposals for the Transformation from Business Tax to Value Added Tax (營業稅改徵增值稅試點方案) (“Pilot Proposals”) promulgated by the Ministry of Finance and the SAT and effective on November 16, 2011, the transformation from business tax to value added tax will take effect on January 1, 2012 in pilot business of pilot areas. Pursuant to the Pilot Proposals, two levels of low Valued Added Tax rates of 11% and 6% are added in the current Valued Added Tax rates which are 17% and 13% respectively. The tax rate for business such as the transportation business and the construction business is 11% and the tax rate for certain other modern service business is 6%.

On June 20, 2013, the State Administration of Taxation issued the Notice on Further Improving the Collection and Administration of Value-Added Tax on Land (關於進一步做好土地增值稅徵管工作的通知). According to the notice, the State Administration of Taxation will standardize collection and administration of Value-added Tax on Land and further strengthen the administration over the Value-added Tax on Land inquisition in the areas including examination of deductible items, reduction in the assessment and collection items and other aspects.

Pursuant to the Circular on Comprehensively Promoting the Pilot Program of Replacing Business Tax with Value Added Tax (財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知) which was promulgated by the Ministry of Finance and the SAT on March 23, 2016 and became effective on May 1, 2016, since May 1, 2016, the government will levy Valued Added Tax in lieu of business tax on a trial basis within the territory of the PRC, and any taxable activities of taxpayers shall be subject to a tax rate of 6% except for the taxpayer providing transportation, postal, telecom, construction, real estate leasing service, selling real estate, transferring land use right, leasing services of tangible personal property, and any cross-border taxable activity conducted by an entity or individual within the territory.

To provide services related to transportation, postal, telecom, construction, real estate leasing service, selling real estate, transferring land use right, the tax rate is 11%. To provide leasing services of tangible personal property, the tax rate is 17%. For any cross-border taxable activity conducted by an entity or individual within the territory, the tax rate is zero.

For the general taxpayers of real estate developers who sell the real estate projects (excluding the old real estate projects to which the simple tax calculation method is applicable) developed by them, the sales amount shall be the balance of the total price and other charges gained after deduction of the land price paid to the government departments at the time of acceptance of the transferred land. Old real estate projects refer to the real estate projects with the commencement date indicated on the Construction Permit for Construction Engineering being before April 30, 2016. Where a real estate developer recognized as a general taxpayer sells old real estate projects developed by it, the simple tax calculation method may be adopted, with the tax calculated at a levy rate of 5%.

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, in the event that a real estate developer recognized as an ordinary taxpayer sells a self-developed real estate project, the general tax calculation method shall be adopted, and the obtained total consideration and other charges after the deduction of the corresponding land price of the real estate project sold for the current period shall be the sales amount.

On November 10, 2016, the SAT issued the Announcement on the Several Provisions on the Collection of Land Appreciation Tax after the Replacement of Business Tax with VAT (關於營改增後土地增值稅若干徵管規定的公告), which clarified several issues concerning administration of collection of LAT after replacement of business tax with VAT, including confirmation of LAT taxable income, confirmation of LAT taxable income from any conduct deemed as the sale of a real estate property after the replacement of business tax with VAT, the deduction of taxes related to real estate transfer, calculation issues concerning the land VAT settlement, confirmation of invoices for building installation project expenses, and calculation of deductible items at the time of transfer of old houses.

Under the Interim Value Added Tax Regulations of the People's Republic of China promulgated by the State Council in December 1993 and amended in November 2008, February 2016 and November 2017, all enterprises and individuals engaged in sale of goods, provision of processing, repairs and replacement services, sales services, intangible properties, real estate, and the importation of goods within the PRC should pay value added tax, the rate of which is between 3% to 17% depending on the type of taxable sales activities provided. To provide services related to transportation, postal, telecom, construction, real estate leasing service, selling real estate, transferring land use right, the tax rate is 11%.

MANAGEMENT

Our board is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of the members of our board:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Hui Wing Mau (許榮茂)	67	Chairman and executive director
Hui Sai Tan, Jason (許世壇)	41	Vice chairman and executive director
Tang Fei (湯沸)	47	Executive director
Liu Sai Fei (劉賽飛)	56	Non-executive director
Kan Lai Kuen, Alice (簡麗娟)	63	Independent non-executive director
Lu Hong Bing (呂紅兵)	51	Independent non-executive director
Lam Ching Kam (林清錦)	57	Independent non-executive director

DIRECTORS

Executive Directors

Mr. HUI Wing Mau (許榮茂), aged 67, is the chairman and executive director of our Company and the founder of our Group. With over 28 years' experience in property development, property investment and hotel operation, he is primarily responsible for our Group's overall strategic planning and business management. Mr. Hui is currently a member of the Standing Committee of the Thirteenth National Committee of the Chinese People's Political Consultative Conference ("CPPCC"), vice-president of All-China Federation of Returned Overseas Chinese, the president of China Federation of Overseas Chinese Entrepreneurs, vice president of China Overseas Chinese Entrepreneurs Association, chairman of Shanghai Overseas Chinese Chamber of Commerce, executive president of China Red Ribbon Foundation and chairman of the board of directors of New Home Association Hong Kong. Mr. Hui obtained a master's degree in business administration from the University of South Australia. Mr. Hui is also the non-executive chairman of Shanghai Shimao and the chairman and a director of Shimao International Holdings Limited ("Shimao International"). He is a director of Gemfair Investments Limited and Shiyong Finance Limited, substantial shareholders of our Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"). He has been the chairman and an executive director of our Company since November 8, 2004. Mr. Hui is the father of Mr. Hui Sai Tan, Jason, the vice chairman and executive director of our Company, and Ms. Hui Mei Mei, Carol, the vice chairman of Shanghai Shimao.

Mr. HUI Sai Tan, Jason (許世壇), aged 41, the vice chairman and executive director of our Company. He has been the group sales controller since he joined our Group in March 2000. Mr. Jason Hui is responsible for the sales, marketing, management and design of our Group's projects. He has more than 19 years' experience in the property development industry and has presided over the sales and marketing of Shanghai Shimao Riviera Garden which boasted top sales proceeds among residential projects in Shanghai for four consecutive years from 2001 to 2004. Mr. Jason Hui obtained a master of science degree in real estate from the University of Greenwich, the United Kingdom in 2001, and a master's degree in business administration from the University of South Australia in 2004. He is a member of the Standing Committee of All-China Youth Federation and a member of Shanghai Committee of the CPPCC. He has been an executive director and the vice chairman of our

Company since November 17, 2004 and April 21, 2008 respectively. He is also a director of Shanghai Shimaο. Mr. Jason Hui is the son of Mr. Hui Wing Mau, the chairman, an executive director and a controlling shareholder of our Company, and the brother of Ms. Hui Mei Mei, Carol, the vice chairman of Shanghai Shimaο.

Ms. TANG Fei (湯沸), aged 47, has joined our Group since July 2004 and was appointed an executive director of our Company since February 6, 2013. Ms. Tang is currently a vice president of our Group, responsible for the financial control of our Group. Ms. Tang holds a master's degree in business administration from the University of South Australia and has over 24 years' experience in financial management and internal audit. Prior to joining our Group, Ms. Tang worked in the internal audit department of Bank of China, Head office from 1992 to 1998. She also worked in the audit department and treasury department of Bank of China (Hong Kong) Limited from 1999 to 2004.

Non-executive Director

Mr. LIU Sai Fei (劉賽飛), aged 56, has joined our Group since 2003, was appointed an executive director of our Company since February 1, 2010 and has been re-designated as a non-executive director of our Company since January 9, 2015. He is also a director and the president of Shanghai Shimaο. Mr. Liu obtained a master's degree in project management from the University of Western Sydney, Australia in 2000. Mr. Liu has over 33 years' experience in architectural design and project management. Prior to joining our Group, he worked for CRG Contractors Dte from 1998 to 2001. From 2001 to 2003, he worked for Shanghai Merry Land Co., Ltd. as project manager.

Independent Non-executive Directors

Ms. KAN Lai Kuen, Alice (簡麗娟), aged 63, has been an independent non-executive director of our Company since March 16, 2006 and has more than 26 years' experience in corporate finance. She is the responsible officer, the managing director and the controlling shareholder of Asia Investment Management Limited, a licensed corporation accredited by the Securities and Futures Commission of Hong Kong. Ms. Kan currently serves as an independent non-executive director on the boards of the following companies which are listed on the Hong Kong Stock Exchange: Regal Hotels International Holdings Limited, China Engene International (Holdings) Limited, Cosmopolitan International Holdings Limited and Mason Group Holdings Limited. She is also an independent director of AVIC International Maritime Holdings Limited, a company listed on the Catalist Board of the Singapore Exchange Securities Trading Limited. She is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Hong Kong Institute of Directors, the Association of Chartered Certified Accounts and the Australian Society of Certified Practising Accountants. Ms. Kan held various senior positions in international and local banks and financial institutions.

Mr. LU Hong Bing (呂紅兵), aged 51, has been an independent non-executive director of our Company since November 17, 2004. He obtained a master's degree in law from East China University of Political Science and Law in 1991 and has more than 25 years' experience in corporate and securities laws in China. Mr. Lu currently serves as an independent non-executive director of ZTE Corporation, a company publicly listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, and CEFC Hong Kong Financial Investment Company Limited, a company publicly listed on the Hong Kong Stock Exchange. He is also an independent director of Shanghai Shentong Metro Co., Ltd., a company publicly listed on the Shanghai Stock Exchange, and Shandong Airlines Co.,

Ltd., a company publicly listed on the Shenzhen Stock Exchange. Mr. Lu is an executive partner of the Grandall Law Firm, a vice-president of the All China Lawyers Association, an arbitrator and a member of the Shanghai International Economic and Trade Arbitration Commission, an arbitrator and a member of the Shanghai Arbitration Commission, a concurrent professor of East China University of Political Science and Law and the Shanghai University of International Business and Economics, a member of the Review Board of the China Securities Regulatory Commission for Mergers, Acquisitions, and Restructurings of Listed Companies and a commissioner of the Listing Committee of the Shanghai Stock Exchange.

Mr. LAM Ching Kam (林清錦), aged 57, has been an independent non-executive director of our Company since June 1, 2006. He is currently a fellow member of the Hong Kong Institute of Surveyors. Mr. Lam obtained a master's degree in business administration from the Hong Kong Open University in 2004 and is a fellow member of the Chartered Institute of Civil Engineering Surveyors and the Royal Institution of Chartered Surveyors. He was the vice chairman of the Royal Institution of Chartered Surveyors China Group from 2003 to 2006. He is a member of the China Civil Engineering Society (中國土木工程師學會會員) and also a registered China Costing Engineer (中國造價工程師執業資格). Mr. Lam has been a consultant to the Beijing Construction Project Management Association (北京市建設監理協會) since 2003 and has engaged in professional training and vocational education in China for more than 16 years. Mr. Lam has been in the property development and construction industry for 34 years, and has worked for construction contractors such as Shui On Building Contractors Limited, China State Construction Engineering Corporation and Hopewell Construction Co., Ltd. Mr. Lam was employed as a quantity surveyor and worked in London from 1990 to 1991. He was employed by certain consultant firms and the Architectural Services Department of the Hong Kong Government before he emigrated to Australia in 1996 and operated a project management firm in Sydney. Mr. Lam was the project controller of Sino Regal Ltd. (HK) for investment projects in China from 1994 to 1996. In 1998, Mr. Lam established a surveying and management consultant firm which has been participating in many large-scale projects in China and Macau, including a Beijing Olympic 2008 project involving the hotels, offices towers and commercial complex in Olympic Park, Beijing. In October 2016, Mr. Lam's company merged with ShineWing (Beijing) International Construction Consulting Co., Ltd. ("ShineWing") and he became a partner of ShineWing on October 1, 2016.

CHIEF FINANCIAL OFFICER

Mr. YAU Kwan Shan (丘鈞山) is our chief financial officer of the Company. Mr. Yau is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Prior to joining our Company, he worked for an international accounting firm and a number of Hong Kong listed companies, with over 26 years of experience in accounting, finance and management.

COMPANY SECRETARY

Ms. LAM Yee Mei, Katherine (林綺薇), is our company secretary. Ms. Lam is an associate member of both the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and holds a bachelor's degree and a master's degree in law from the University of London. She has over 20 years' experience in company secretarial practice. Ms. Lam plays an important role in supporting the board by ensuring efficient information flow within the board and that board procedures, and all applicable laws, rules and regulations are followed by our Company. Ms. Lam reports to the board through the chairman and vice chairman.

BOARD COMMITTEES

Audit Committee

We have an audit committee in compliance with the Listing Rules. The audit committee consists of three members, all of whom are our independent non-executive directors. The chairman of the audit committee is Ms. Kan Lai Kuen, Alice, an independent non-executive director.

The primary duties of the audit committee are to assist the board to review and supervise the financial reporting process, internal control and risk management systems of our Company, nominate and monitor external auditor and provide advice and comments to our board.

Remuneration Committee

We have a remuneration committee. The remuneration committee consists of four members, comprising Mr. Hui Wing Mau and our three independent non-executive directors. The chairman of the remuneration committee is Mr. Lu Hong Bing.

The primary functions of the remuneration committee are to evaluate the performance and make recommendations on the remuneration package of our directors and senior management and evaluate, make recommendations on our share option scheme, share award scheme, retirement scheme and our performance assessment system and bonus and commission policies.

Nomination Committee

We have a nomination committee. The nomination committee consists of four members, comprising Mr. Hui Wing Mau and our three independent non-executive directors. The chairman of the nomination committee is Mr. Hui Wing Mau.

The primary functions of the nomination committee are to identify and nominate suitable candidates for our board's consideration and recommendation to stand for election by shareholders at annual general meetings, and when necessary, make recommendations to our board regarding candidates to fill vacancies on our board.

COMPENSATION OF DIRECTORS

The aggregate amount of compensation (including any salaries, other short-term employee benefits and retirement scheme contributions) paid by us during the years ended December 31, 2015, 2016 and 2017, to those persons who have been or are our directors, was approximately RMB19.5 million and RMB25.0 million and RMB22.8 million (US\$3.5 million), respectively.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding ownership of our outstanding shares as of December 31, 2017 by those persons who beneficially own more than 5% of our outstanding shares, as recorded in the register maintained by us pursuant to Part XV of the SFO:

<u>Name of Shareholder</u>	<u>Nature of Interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of interest in our Company</u>
Hui Wing Mau	<i>(Note 1)</i>	2,299,242,942	67.9%
Gemfair Investments Limited	<i>(Note 2)</i>	1,947,984,000	57.5%
Overseas Investment Group International Limited (“Overseas Investment”)	<i>(Note 3)</i>	1,947,984,000	57.5%
Shiyong Finance Limited	<i>(Note 4)</i>	351,258,942	10.4%

Notes:

- (1) These 2,299,242,942 shares represent the interest in the Company held by Gemfair Investments Limited and Shiyong Finance Limited, companies which are directly wholly owned by Mr. Hui Wing Mau.
- (2) The interest disclosed represents the interest in the Company held by Gemfair Investments Limited, a company which is directly wholly owned by Mr. Hui Wing Mau.
- (3) The interest disclosed represents the right of Overseas Investment to vote on behalf of Gemfair Investments Limited as a shareholder at general meetings of the Company, pursuant to a deed dated June 12, 2006 between Gemfair Investments Limited and Overseas Investment, as long as Mr. Hui Wing Mau or his close associates (directly or indirectly) hold not less than a 30% interest in the Company.
- (4) The interest disclosed represents the interest in the Company held by Shiyong Finance Limited, a company directly wholly owned by Mr. Hui Wing Mau.

Except as disclosed above, no other interest or short position in the shares and underlying shares of the Company were recorded in the register.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between 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.

As a listed company on The Stock Exchange of Hong Kong Limited, we are subject to the requirements of Chapter 14A of the Listing Rules which require certain “connected transactions” with “connected persons” be approved by a company’s independent shareholders. Each of our related party transactions disclosed hereunder that constitutes a connected transaction within the meaning of the Listing Rules requiring shareholder approval has been so approved, or otherwise exempted from compliance under Chapter 14A of the Listing Rules.

MAJOR RELATED PARTY TRANSACTIONS

The following table sets forth certain material transactions between us and our related parties for the periods indicated:

	For the year ended December 31,			
	2015	2016	2017	2018
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	<i>(US\$)</i>
	Unaudited			
	<i>(in thousands)</i>			
Major related party transactions:				
Operating lease rental expense charged by a related company	4,533	–	–	–
Construction material sold to related companies	10,368	57,047	68,629	10,548
Key management compensation				
Emoluments				
– Salaries and other short-term employee benefits	19,200	24,718	22,507	3,459
– Retirement scheme contributions	295	298	287	44

NON-COMPETITION UNDERTAKING

In June 2009, we completed the restructuring with Shanghai Shimao Enterprises Development Co., Ltd. (“Shimao Enterprises”) and Shanghai Shimao (the “Restructuring”) and, as a result, Shimao Enterprises and Shanghai Shimao became our majority-owned subsidiaries. Upon completion of the Restructuring, we owned an approximately 50.9% equity interest in Shimao Enterprises and an approximately 64.21% equity interest in Shanghai Shimao. On October 27, 2007, our Company, Shanghai Shimao, Shimao Enterprises, Overseas Investment, Mr. Hui Wing Mau, Mr. Xu Shiyong and Shimao International entered into a supplementary agreement (“Revised Undertaking”) to a non-competition undertaking dated February 19, 2005 (the “Non-competition Undertaking”), to

amend certain non-competition arrangements according to the changes in the relationships among the parties as contemplated upon completion of the Restructuring. Furthermore, in order to reflect the new commercial circumstances in relation to the new non-competition arrangements, our Company, Shanghai Shimao and Mr. Hui Wing Mau also entered into the PRC non-competition agreement dated October 22, 2007 (“PRC Non-competition Agreement”) to substitute certain undertakings previously given by our Company and Shanghai Shimao to each other under the Non-competition Undertaking. Upon completion of the Restructuring, the new non-competition arrangements contemplated under the Revised Undertaking and the PRC Non-competition Agreement became effective. The table below set forth the summary of these new non-competition arrangements:

	<u>Our Group</u>	<u>Shanghai Shimao</u>	<u>Mr. Hui Wing Mau and the Private Group</u>
Shareholding interests		Approximately 64.21% indirectly owned by our Company	Companies under the Private Group
Principal business	Residential property and hotel projects	Commercial property projects	Continue to hold a number of property development projects in the PRC undertaken by the Private Group prior to the Non-competition Undertaking
Delineation with our Group		Delineation by the nature of the development projects	No new competing business with our Group
Carve-outs		Shanghai Shimao’s existing projects in the PRC prior to the PRC Non-competition Agreement	The Private Group’s existing projects in the PRC prior to the Revised Undertaking and Mr. Hui Wing Mau’s certain personal interest

<u>Our Group</u>	<u>Shanghai Shimao</u>	<u>Mr. Hui Wing Mau and the Private Group</u>
		Mr. Hui Wing Mau has the right to engage in property business outside the PRC in the event that our Company decides not to pursue such business

PROVISION OF GUARANTEES BY MR. HUI WING MAU IN FAVOR OF OUR GROUP

Mr. Hui Wing Mau has provided certain guarantees to secure our bank loans. As of December 31, 2017, we had not paid for or provided any benefit to Mr. Hui Wing Mau to induce him to provide these guarantees.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing property projects and to finance our working capital requirements, we have entered into loan agreements with various financial institutions. As of December 31, 2017, our total outstanding external borrowings amounted to RMB87,504.7 million (US\$13,449.2 million). Set forth below is a summary of the material terms and conditions of these loans and other indebtedness.

PROJECT LOAN AGREEMENTS

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks and financial limited companies, including, but not limited to, China Merchants Bank, China Everbright Bank, China ZheShang Bank, Standard Chartered Bank, China Bohai Bank, Bank of Communications, China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China, China CITIC Bank, Bank of China, China Minsheng Banking Co., Ltd., The Bank of East Asia Limited, Postal Savings Bank of China, Bank of Shanghai, Bank of Nanjing Co., Ltd., Bank of Communications International Trust Co., Ltd. and Dah Sing Bank, Limited Zheshangjinhui Trust Co., Ltd., China Foreign Economy and Trade Trust Co., Ltd.. These loans are typically project loans to finance the construction of our projects (the “project loans”) and have terms ranging from six months to 20 years, which generally correspond to the construction periods of the particular projects. As of December 31, 2017, the aggregate outstanding amount under these project loans totaled approximately RMB37,755.6 million (US\$5,802.9 million), of which RMB5,367.5 million (US\$825.0 million) was due within one year, RMB6,050.4 million (US\$929.9 million) was due between one and two years, RMB17,025.7 million (US\$2,616.8 million) was due between two and five years and RMB9,132.0 million (US\$1,431.2 million) was due over five years. Our project loans are typically secured by land use rights and properties as well as guaranteed by our Company and certain of our PRC subsidiaries.

Interest

The principal amounts outstanding under the project loans generally bear interest at floating rates calculated by reference to the relevant bank’s benchmark interest rate per annum. Floating interest rates are generally subject to review by the banks annually. 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 interest rate on the aggregate outstanding amount of our project loans was 4.93% per annum.

Covenants

Under these project loans, many of our subsidiary borrowers have agreed, among other things, not to take the following actions without first obtaining the lenders’ prior consent:

- create encumbrances on any part of their property or assets or deal with their assets in a way that may adversely affect their ability to repay the loans;
- grant guarantees to any third parties that may adversely affect their ability to repay the loans;

- make any major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions and reorganizations;
- alter the nature or scope of their business operations in any material respect;
- incur additional debts that may adversely affect their ability to repay the loans;
- prepay the loans; and
- transfer part or all of their liabilities under the loans to a third party.

Events of Default

The project loans contain certain customary events of default, including insolvency, material adverse change in the collateral and breaches of the terms of the loan agreements. The financial institutions 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

Our Company and certain of our PRC subsidiaries have entered into guarantee agreements with the PRC financial institutions in connection with some of the project loans pursuant to which these subsidiaries have guaranteed all liabilities of the subsidiary borrowers under these project loans. Further, as of December 31, 2017, RMB1,723.9 million (US\$274.8 million) of the project loans were secured by land use rights and/or other assets and properties of the subsidiary borrowers and/or our other PRC subsidiaries, including equity interests in certain of our PRC subsidiaries.

Dividend Restrictions

Pursuant to the project loans with certain PRC financial institutions, some of our PRC subsidiaries also agreed not to distribute any dividend, including, but not limited to:

- if the borrower's after-tax profit is nil or negative;
- before the principal amount of and accrued interest on the relevant project loan have been fully paid; or
- before any principal amount of and accrued interest on the relevant project loan due within the period have been fully paid.

2015 NOTES

On February 10, 2015, we entered into an indenture (as amended or supplemented from time to time, the "2015 Indenture"), pursuant to which we issued US\$800,000,000 principal amount of 8.375% senior notes due 2022 and additional US\$300,000,000 principal amount on March 8, 2015. As of the date of this offering memorandum, US\$1,100,000,000 principal amount of the 2015 Notes is outstanding.

Guarantee

The obligations under the 2015 Notes are guaranteed by our existing subsidiaries (the “2015 Subsidiary Guarantors” or “2015 JV Subsidiary Guarantors,” as the case may be) other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the 2015 Indenture.

Each of the 2015 Subsidiary Guarantors and 2015 JV Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal of, any premium (if any) and interest on, and all other amounts payable under, the 2015 Notes.

Collateral

In order to secure obligations under the 2015 Notes, the Company and each subsidiary guarantor pledgor under the 2015 Indenture pledged the shares of all such 2015 Subsidiary Guarantors, other than that of Shimao Property Holdings (BVI) Limited and Peak Castle Assets Limited, for the benefit of the 2015 Notes holders (the “2015 Collateral”).

On February 10, 2015, the trustee for the 2015 Notes acceded to the Intercreditor Agreement, pursuant to which, among others, the 2015 Notes and other permitted *pari passu* indebtedness are secured by the 2015 Collateral, except with respect to certain collateral under the 2014 Collateral as specified in the Supplement to Intercreditor Agreement.

The 2015 Collateral and the subsidiary guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each subsidiary guarantor pledgor under the 2015 Indenture may, subject to certain conditions, incur additional indebtedness which would be secured by the 2015 Collateral on a *pari passu* basis with the 2015 Notes and the related subsidiary guarantees.

We have registered certain initial BVI Subsidiary Guarantor Pledgors, namely, Eagle House Enterprises Limited, Keen Villa Limited, Money Raider Enterprises Limited, Profun Group Limited, Rich Town Group Limited, Vicking International Ltd. and Wickfair Investments Limited as non-Hong Kong companies under Part 16 of the Companies Ordinance in 2016 and 2017. Under section 340 of the Companies Ordinance, these BVI Subsidiary Guarantor Pledgors are required to register the particulars of the charge over the shares they hold in the relevant Subsidiary Guarantors charged in favor of Citibank, N.A. as the Shared Security Agent for the benefit of itself and the trustees and holders of our 2015 Notes, with the Hong Kong Companies Registry. We have completed the necessary filings of such share charges required in the BVI. Failure to register the share charges pursuant to the Companies Ordinance will not affect the validity of the Share Charges. However, future creditors may not be able to locate the particulars of such share charges if they search the publicly available records of the Hong Kong Companies Registry.

Interest

The 2015 Notes bear an interest rate of 8.375% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the 2015 Indenture and each of the relevant subsidiary guarantees contain certain covenants, restricting us and each of the relevant restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related restricted subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The 2015 Indenture contains certain customary events of default, including default in the payment of principal of (or any premium on) the 2015 Notes when such payments become due, default in payment of interest which continues for 30 days and other events of default substantially similar to the Events of Default under the Indenture. If an event of default occurs and is continuing, the trustee under the 2015 Indenture or the holders of at least 25% of the outstanding 2015 Notes may declare the principal of the 2015 Notes plus a premium and any accrued and unpaid interest to be immediately due and payable.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we are required to make an offer to repurchase all outstanding 2015 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the 2015 Notes is February 10, 2022.

At any time on or after February 10, 2019, we may redeem the 2015 Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth in the table below if redeemed during each period indicated below, plus any accrued and unpaid interest to the redemption date:

Period	Redemption Price
February 10, 2019 – February 9, 2020	104.188%
February 10, 2020 – February 9, 2021	102.094%
February 10, 2021 – February 9, 2022	100.000%

At any time prior to February 10, 2019, we may redeem the 2015 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2015 Notes, plus a premium and any accrued and unpaid interest to the redemption date.

At any time prior to February 10, 2018, we may redeem up to 35% of the aggregate principal amount of the 2015 Notes at a redemption price equal to 108.375% of the principal amount of the 2015 Notes, plus any accrued and unpaid interest with the proceeds from sales of certain kinds of the Company's capital stock, subject to certain conditions.

Additionally, if we or a subsidiary guarantor under the 2015 Indenture would become obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the 2015 Notes at a redemption price equal to 100% of the principal amount of the 2015 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

2017 NOTES

On July 3, 2017, we entered into an indenture (as amended or supplemented from time to time, the "2017 Indenture"), pursuant to which we issued US\$600,000,000 principal amount of 4.75% senior notes due 2022 on July 3, 2017 and additional US\$400,000,000 principal amount on December 11, 2017. As of the date of this offering memorandum, US\$1,000,000,000 principal amount of the 2017 Notes is outstanding.

Guarantee

The obligations under the 2017 Notes are guaranteed by our existing subsidiaries (the "2017 Subsidiary Guarantors" or "2017 JV Subsidiary Guarantors," as the case may be) other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the 2017 Indenture.

Each of the 2017 Subsidiary Guarantors and 2017 JV Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal of, any premium (if any) and interest on, and all other amounts payable under, the 2017 Notes.

Collateral

In order to secure obligations under the 2017 Notes, the Company and each subsidiary guarantor pledgor under the 2017 Indenture pledged the shares of all such 2017 Subsidiary Guarantors, other than that of Shimao Property Holdings (BVI) Limited and Peak Castle Assets Limited, for the benefit of the 2017 Notes holders (the “2017 Collateral”).

On July 3, 2017, the trustee for the 2017 Notes acceded to the Intercreditor Agreement, pursuant to which, among others, the 2015 Notes and the 2017 Notes and other permitted *pari passu* indebtedness are secured by the 2017 Collateral, except with respect to certain collateral under the 2014 Collateral as specified in the Supplement to Intercreditor Agreement.

The 2017 Collateral and the subsidiary guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each subsidiary guarantor pledgor under the 2017 Indenture may, subject to certain conditions, incur additional indebtedness which would be secured by the 2017 Collateral on a *pari passu* basis with the 2017 Notes and the related subsidiary guarantees.

We have registered certain initial BVI Subsidiary Guarantor Pledgors, namely, Eagle House Enterprises Limited, Keen Villa Limited, Money Raider Enterprises Limited, Profun Group Limited, Rich Town Group Limited, Vicking International Ltd. and Wickfair Investments Limited as non-Hong Kong companies under Part 16 of the Companies Ordinance in 2016 and 2017. Under section 340 of the Companies Ordinance, these BVI Subsidiary Guarantor Pledgors are required to register the particulars of the charge over the shares they hold in the relevant Subsidiary Guarantors charged in favor of Citibank, N.A. as the Shared Security Agent for the benefit of itself and the trustees and holders of our 2015 Notes, with the Hong Kong Companies Registry. We have completed the necessary filings of such share charges required in the BVI. Failure to register the share charges pursuant to the Companies Ordinance will not affect the validity of the Share Charges. However, future creditors may not be able to locate the particulars of such share charges if they search the publicly available records of the Hong Kong Companies Registry.

Interest

The 2017 Notes bear an interest rate of 4.75% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the 2017 Indenture and each of the relevant subsidiary guarantees contain certain covenants, restricting us and each of the relevant restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;

- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related restricted subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

Events of Default

The 2017 Indenture contains certain customary events of default, including default in the payment of principal of (or any premium on) the 2017 Notes when such payments become due, default in payment of interest which continues for 30 days and other events of default substantially similar to the Events of Default under the Indenture. If an event of default occurs and is continuing, the trustee under the 2017 Indenture or the holders of at least 25% of the outstanding 2017 Notes may declare the principal of the 2017 Notes plus a premium and any accrued and unpaid interest to be immediately due and payable.

Change of Control

Upon the occurrence of certain events of change of control and a rating decline, we are required to make an offer to repurchase all outstanding 2017 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the 2017 Notes is July 3, 2022.

At any time and from time to time on or after July 3, 2020, the Company may at its option redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve-month period beginning on July 3 of the years indicated below.

Period	Redemption Price
2020	102.3750%
2021 and therefore	101.1875%

At any time prior to July 3, 2020, we may redeem the 2017 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2017 Notes, plus a premium and any accrued and unpaid interest to the redemption date.

At any time prior to July 3, 2020, we may redeem up to 35% of the aggregate principal amount of the 2017 Notes at a redemption price equal to 104.75% of the principal amount of the 2017 Notes, plus any accrued and unpaid interest with the proceeds from sales of certain kinds of the Company's capital stock, subject to certain conditions.

Additionally, if we or a subsidiary guarantor under the 2017 Indenture would become obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the 2017 Notes at a redemption price equal to 100% of the principal amount of the 2017 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

JANUARY 2018 NOTES

On January 30, 2018, we entered into an indenture (as amended or supplemented from time to time, the "2018 Indenture"), pursuant to which we issued US\$500,000,000 principal amount of 5.20% senior notes due 2025. As of the date of this offering memorandum, the entire principal amount of the January 2018 Notes is outstanding.

Guarantee

The obligations under the January 2018 Notes are guaranteed by our existing subsidiaries (the "2018 Subsidiary Guarantors" or "2018 JV Subsidiary Guarantors," as the case may be) other than (i) those organized under the laws of the PRC and (ii) certain other subsidiaries specified in the 2018 Indenture.

Each of the 2018 Subsidiary Guarantors and 2018 JV Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal of, any premium (if any) and interest on, and all other amounts payable under, the January 2018 Notes.

Collateral

In order to secure obligations under the January 2018 Notes, the Company and each subsidiary guarantor pledgor under the 2018 Indenture pledged the shares of all such 2018 Subsidiary Guarantors, other than that of Shimao Property Holdings (BVI) Limited and Peak Castle Assets Limited, for the benefit of the January 2018 Notes holders (the "2018 Collateral").

On January 30, 2018, the trustee for the January 2018 Notes acceded to the Intercreditor Agreement, pursuant to which, among others, the 2015 Notes, the 2017 Notes, the January 2018 Notes and other permitted *pari passu* indebtedness are secured by the 2018 Collateral, except with respect to certain collateral under the 2014 Collateral as specified in the Supplement to Intercreditor Agreement.

The 2018 Collateral and the subsidiary guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each subsidiary guarantor pledgor under the 2018 Indenture may, subject to certain conditions, incur additional indebtedness which would be secured by the 2018 Collateral on a *pari passu* basis with the January 2018 Notes and the related subsidiary guarantees.

We have registered certain initial BVI Subsidiary Guarantor Pledgors, namely, Eagle House Enterprises Limited, Keen Villa Limited, Money Raider Enterprises Limited, Profun Group Limited, Rich Town Group Limited, Vicking International Ltd. and Wickfair Investments Limited as non-Hong Kong companies under Part 16 of the Companies Ordinance in 2016 and 2017. Under section 340 of the Companies Ordinance, these BVI Subsidiary Guarantor Pledgors are required to register the particulars of the charge over the shares they hold in the relevant Subsidiary Guarantors charged in favor of Citibank, N.A. as the Shared Security Agent for the benefit of itself and the trustees and holders of our 2015 Notes, with the Hong Kong Companies Registry. We have completed the necessary filings of such share charges required in the BVI. Failure to register the share charges pursuant to the Companies Ordinance will not affect the validity of the Share Charges. However, future creditors may not be able to locate the particulars of such share charges if they search the publicly available records of the Hong Kong Companies Registry.

Interest

The January 2018 Notes bear an interest rate of 5.20% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the 2018 Indenture and each of the relevant subsidiary guarantees contain certain covenants, restricting us and each of the relevant restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related restricted subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

2017 SYNDICATED LOAN FACILITIES

On October 30, 2017, we entered into a facility agreement in connection with multi-currency term loan facilities (the “2017 Syndicated Loan Facilities”), comprising a US\$680,000,000 facility and a HK\$5,890,000,000 facility, with HSBC as mandated lead arranger and coordinator, Sumitomo Mitsui Banking Corporation, China Construction Bank Corporation, Hong Kong Branch, Hang Seng Bank Limited, Bank of Communications Co., Ltd, Hong Kong Branch, The Bank of East Asia, Limited, Bank of China (Hong Kong) Limited, Industrial and Commercial Bank of China (Asia) Limited, Standard Chartered Bank (Hong Kong) Limited, Wing Lung Bank Ltd, China Minsheng bank Corporation Hong Kong Branch and United Oversea Bank Limited as mandated lead arrangers, and HSBC as facility agent.

The proceeds of the 2017 Syndicated Loan Facilities are to be used to refinance our existing indebtedness or for general corporate purposes. We expect to draw down the 2017 Syndicated Loan Facilities in December 2017.

Interest

Under the facility agreement, the interest rate applicable for an interest period is LIBOR, in the case of a U.S. dollar loan, or HIBOR, in the case of a Hong Kong dollar loan, in each case, plus a margin of 2.30% per annum. If we fail to pay the sum due on its payment date, interest shall accrue on the unpaid sum from the due date up to the date of actual payment, and interest on an overdue amount (provided that such overdue amount is not a principal amount of the loan) is payable at a rate determined by the facility agent to be 2% per annum above the rate which would have been payable.

Maturity and Prepayment

The loan facilities are repayable in five semi-annual installments and in the amounts as follows: (i) on the date falling 24 months after the date of the credit agreement, 5% of the outstanding loan facilities; (ii) on the date falling 30 months after the date of the credit agreement, 10% of the outstanding loan facilities; (iii) on the date falling 36 months after the date of the credit agreement, 15% of the outstanding loan facilities; (iv) on the date falling 42 months after the date of the credit agreement, 20% of the outstanding loan facilities; and (v) on the date falling 48 months after the date of the credit agreement, 50% of the outstanding loan facilities. We have the right to prepay the facilities by giving not less than 30 days’ prior notice (or such shorter period as the facility agent, acting on the instructions of the majority lenders, may agree) to the facility agent.

Guarantee and Indemnity

Our obligations under the credit agreement are guaranteed by our certain subsidiaries which are incorporated outside of the PRC.

Covenants

Pursuant to the facility agreement, we agreed to the following financial covenants:

- our consolidated tangible net worth shall not at any time be less than RMB30,000,000,000;

- the ratio of consolidated net borrowings to consolidated tangible net worth shall not at any time be more than 0.80:1;
- the ratio of consolidated current assets to consolidated current liabilities shall not at any time be less than 1:1;
- the ratio of consolidated EBITDA to consolidated fixed charges in respect of any relevant period shall be no less than 2.50:1; and
- the ratio of consolidated PRC borrowings to consolidated total tangible assets is not at any time more than 0.45:1.

OFFSHORE LOANS

We have entered into offshore loan facility agreements with various banks, including The Bank of East Asia, Limited, China Construction Bank (Asia), Sumitomo Mitsui Banking Corporation Hong Kong Branch, Industrial and Commercial Bank of China Hong Kong Branch, China Merchants Bank Luxembourg Branch, China Merchants Bank Hong Kong Branch, Bank of China Singapore Branch, Standard Chartered Bank (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited, United Overseas Bank Limited, Hang Seng Bank Limited, Bank of Communications Co., Ltd. Hong Kong Branch, Wing Lung Bank Limited, China CITIC Bank Shanghai Branch, and China Minsheng Bank Corp. Ltd. Hong Kong Branch. Of these loan facilities, our term loan facilities have terms ranging from 12 months to 60 months. The proceeds of the facilities are generally to be used for general working capital requirements, refinancing the repayment of interest and principal of existing offshore indebtedness or dividend payout. As of the date of this offering memorandum, the aggregate outstanding amount under our offshore loan facility agreements total approximately US\$4,432.9 million. The outstanding principal amount under these loans generally bear interest at floating rates calculated with reference to the London Interbank Offered Rate or Hong Kong Interbank Offered Rate and others are computed at a fixed rate ranging from 4.37% to 4.99%.

Pursuant to the facility agreements, we agreed certain financial covenants with respect to, among others, (1) consolidated tangible net worth, (2) the ratio of consolidated net borrowings to consolidated tangible net worth, (3) the ratio of our consolidated current assets to consolidated current liabilities, (4) the ratio of our consolidated EBITDA to consolidated fixed charges, and (5) the ratio of consolidated PRC borrowings to consolidated total tangible assets. We have further agreed, among other things, that we will not declare or pay any dividends or make any other distribution in the form of cash to our shareholders in excess of 35% of our consolidated net profit after tax in any financial year.

ASSET-BACKED NOTES

On September 12, 2017, our wholly-owned subsidiary, Shanghai Shimao International Plaza, completed the placing of a first tranche of asset-backed notes. The first tranche of the asset-backed notes is in an aggregate amount of RMB6.5 billion with an average annual coupon rate of 4.8%. We intend to use the proceeds from such notes to repay certain borrowings of Shanghai Shimao International Plaza and refinance commercial alternation works.

OTHER OBLIGATIONS

We have provided certain guarantees in connection with borrowing arrangements of certain of our jointly-controlled entities, as described further below. Even though such contingent liabilities are not considered indebtedness in our consolidated financial statements, they are nevertheless treated as indebtedness under the 2014 Indenture and the 2015 Indenture.

Tianjin Jinnan New City Guarantee

We are developing Tianjin Jinnan New City in Tianjin through Tianjin Jinnan New City Property Development Co., Ltd. (“Tianjin JV Co”), a joint venture with Agile, R&F and KWG in which we hold a 25% interest. On November 23, 2016 and March 28, 2017, Tianjin JV Co, as borrower, entered into a RMB4,500 million term loan facility and a RMB3,000 million term loan agreement, respectively, with certain financial institutions, as lenders. In connection with the loan facilities, we provided a guarantee up to an amount in proportion to our percentage of investment in the joint venture in favor of the lenders.

DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “Company” refers only to Shimao Property Holdings Limited, and any successor obligor on the Notes, and not to any of its subsidiaries. Each subsidiary of the Company which guarantees the Notes is referred to as a “Subsidiary Guarantor,” and each such guarantee is referred to as a “Subsidiary Guarantee.” Each Subsidiary of the Company that in the future provides a JV Subsidiary Guarantee (as defined herein) is referred to as a “JV Subsidiary Guarantor.”

The Original Notes were issued under an indenture (the “Indenture”), dated as of the Original Issue Date, among the Company, the Subsidiary Guarantors and Citicorp International Limited, as trustee (the “Trustee”). The Further Notes offered hereby constitute Additional Notes under the Indenture, will be consolidated and form a single series with the Original Notes, and are identical in all respects to the Original Notes, except for the issue date, issue price and certain temporary securities law transfer restrictions.

The following is a summary of certain provisions of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any) and the Intercreditor Agreement. This summary does not purport to be complete and is subject to and qualified in its entirety by reference to all of the provisions of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any) and the Intercreditor Agreement. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture are available at the corporate trust office of the Trustee at 39/F, Champion Tower, 3 Garden Road, Central, Hong Kong.

Citibank, N.A., an affiliate of the Trustee, acts as the Shared Security Agent. Citicorp International Limited acts as the trustee for the 2015 Notes (the “2015 Notes Trustee”), the trustee for the 2017 Notes (the “2017 Notes Trustee”) and the trustee for the January 2018 Notes (the “January 2018 Trustee”).

BRIEF DESCRIPTION OF THE NOTES

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment against the Company with respect to the 2015 Notes, the 2017 Notes, the January 2018 Notes and all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);

- on the Original Issue Date and for so long as any 2015 Note, 2017 Note and January 2018 Note remains outstanding guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described below under the caption “– The Subsidiary Guarantees and JV Subsidiary Guarantees” and in “Risk Factors – Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral”;
- effectively subordinated to the secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any), to the extent of the value of the assets serving as security therefor (other than the Collateral); and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

In addition, on the Original Issue Date, subject to the limitations described in “Risk Factors – Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral”, the Notes are secured by a pledge of the Collateral as described below under the caption “– Security” and will, for so long as any Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees) remains outstanding:

- be entitled to the benefit of a lien on the Collateral (subject to any Permitted Liens and shared on a *pari passu* basis with the holders of the 2015 Notes, the holders of the 2017 Notes, the holders of the January 2018 Notes and any holders of other Permitted Pari Passu Secured Indebtedness); and
- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Notes will mature on March 15, 2021, unless earlier redeemed pursuant to the terms thereof and the Indenture. The Indenture allows additional Notes to be issued from time to time (together, the “Additional Notes”), subject to certain limitations described under “– Further Issues.” Unless the context requires otherwise, references to the “Notes” for all purposes of the Indenture and this “Description of the Notes” include any Additional Notes that are actually issued, including the Further Notes offered hereby.

The Notes bear interest at 5.75% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semiannually in arrears on March 15 and September 15 of each year (each an “Interest Payment Date”), commencing September 15, 2018.

Interest on the Notes will be paid to the Holders of record at the close of business on February 28 (February 29 in the case of 2020) or August 31 immediately preceding an Interest Payment Date (each, a “Record Date”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. The period beginning on and including March 15, 2018 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.” Interest in respect of any

Note shall be calculated per CNY10,000 in principal amount of the Notes (the “Calculation Amount”). The amount of interest payable per Calculation Amount for any period shall be calculated by multiplying (1) the product of the rate of interest per annum in respect of the Notes multiplied by the Calculation Amount by (2) the quotient of the actual number of days in the relevant Interest Period divided by 365, and rounding the resulting figure to the nearest CNY0.01 (CNY0.005 being rounded upwards).

In any case in which the date of the payment of principal of, premium on or interest on the Notes is not a Business Day in the relevant place of payment, then payment of principal, premium or interest need not be made in such place on such date but may be made on the next succeeding Business Day in such place. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date.

The Notes will be issued only in fully registered form, without coupons, in denominations of CNY1,000,000 and integral multiples of CNY10,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of the Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

Save as provided under “Currency Fallback” below, all payments on the Notes will be made in Renminbi by the Company at the office or agency of the Company maintained for that purpose (which as of the date of this offering memorandum is the corporate trust administration office of the principal paying agent of the Notes, currently located at Citibank, N.A., London Branch, 1 North Wall Quay, Dublin 1, Ireland) and the Notes may be presented for registration of transfer or exchange at such office or agency; *provided* that, at the option of the Trustee, payment of interest may be made by wire transfer to a Renminbi account maintained by or on behalf of the Holder. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants (as defined herein) on the Business Day following payment thereof.

THE SUBSIDIARY GUARANTEES AND JV SUBSIDIARY GUARANTEES

As of the date of the Indenture, all of the Company’s Subsidiaries other than Shanghai Shimao Riviera (Hong Kong) Limited will be “Restricted Subsidiaries.” Under the circumstances described below under the caption “– Certain Covenants – Designation of Restricted and Unrestricted Subsidiaries,” the Company will be permitted to further designate certain of its Subsidiaries as “Unrestricted Subsidiaries.” The Company’s Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture. The Company’s Unrestricted Subsidiaries will not guarantee the Notes. The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Company’s Restricted Subsidiaries other than the Existing Non-Guarantor Subsidiaries (as defined below). Certain of the Subsidiary Guarantors are holding companies that do not have significant operations.

None of the Subsidiaries organized under the laws of the PRC (together, the “PRC Non-Guarantor Subsidiaries”), Able Noble Holdings Limited, Advance Solution Holdings Limited, Assets Charm Limited, Assets Circle Limited, Benesome Limited, Century Select Limited, Classic Font Limited, Classic Prime Limited, Dynamic Classic Holdings Limited, Easygain Global Limited, Excel Land Investments Limited, Flora Sky Limited, Fortune Spring Ventures Limited, Genuine

Victory Holdings Limited, Great Element Limited (欣元有限公司), Idea New Limited (意新有限公司), Inner Power Limited, Insight Best Limited, Joy Select Limited (欣澤有限公司), Jumbo Year Limited, Modern Gateway Holdings Limited, Named Elite Limited, One Best Limited, Orient Talent Limited, Paramount Gain Limited, Peak Dragon Limited, Precision One Investments Limited, Shimao Mini Hotel Group Limited, Shimao Property Development Limited (世茂房地產開發有限公司), Shimao Property Investments Limited (世茂房地產投資有限公司), Sino Fusion Ventures Limited, Sino Green Group Limited, Speedy Gains Limited, Starry Vision Limited, Super Matrix Holdings Limited, Unique Wonder Limited, Up Chance Holdings Limited, Year Honour Limited, Yuluxe Holdings Limited, Genius Success Limited, Giant Insight Limited, “Straits Construction Investment (Holdings) Limited (海峽建設投資(控股)有限公司), Perfect Run Group Limited Wuyi Tourist Resorts Limited (武夷山度假村有限公司) and Win Real Group Limited, which are subsidiaries organized under the laws of BVI (together, the “BVI Non-Guarantor Subsidiaries”), Adventure Success Limited (傲成有限公司), All Excellent Limited (佳穎有限公司), Ally Wealth Limited (碩富有限公司), Ample Fortune Architectural Design and Construction Consultancy Limited (迅悅建築設計及工程顧問有限公司), Best Delight Holdings Limited (佳銘控股有限公司), Best Harmony Limited (萃亨有限公司), Best Plus Holdings Limited (蓋世控股有限公司), Bonus Yield Limited (賦益有限公司), Brand Rise Limited (銘陽有限公司), Champ Merit Investments Limited (富昕投資有限公司), Champion Island Limited (冠壘有限公司), Excellent Shining Limited (曜晴有限公司), Excellent Space Limited (佳設有限公司), Express Hill Limited (譽穩有限公司), Faith Praise Limited (誠詠有限公司), Fast Award Limited (快取有限公司), Grandeur Hope Limited (瀚希有限公司), Huge Profit Creation Limited (年升有限公司), Ideal Sense Limited, Jumbo Partner Limited (興擇有限公司), Legend One Limited (尚蒼有限公司), Luxe First Limited (先銘有限公司), Mount Profit Investments Limited, Powerful Brilliant Limited (智里有限公司), Powerful Great Limited (萃佳有限公司), Prime Talent Holdings Limited (城峰控股有限公司), Prosper Rise Construction Material Trading Limited (亨陽建材貿易有限公司), Shanghai Talent Limited (卓馳有限公司), Shimao Property Investments (HK) Limited (世茂房地產投資(香港)有限公司), Sparkle First Limited (灝領有限公司), Star Central Limited (雄將有限公司), Straits Construction Investment Limited (海峽建設投資有限公司), Summer Sky Investments Limited, Super Rocket Limited (迅起有限公司), Upper Bonus Limited (皓升有限公司), Wealth Extend Limited (隆延有限公司), Whole Brand Limited (皓名有限公司), Whole New Limited, Yuluxe Brands Limited (茂御品牌有限公司), Radiant Growth Limited (映富有限公司), Splendid Beauty Limited (悅繡有限公司) and Grandday International Limited (萃泰國際有限公司) (which are subsidiaries organized under the laws of Hong Kong (together, the “HK Non-Guarantor Subsidiaries”), Great Wall Majestic Pte. Ltd (the “SG Non-Guarantor Subsidiary”), and Shimao Aoya Holding Pty Ltd (the “AUS Non-Guarantor Subsidiary,” together with the BVI Non-Guarantor Subsidiaries, the HK Non-Guarantor Subsidiaries, the AUS Non-Guarantor Subsidiaries and the PRC Non-Guarantor Subsidiaries, the “Existing Non-Guarantor Subsidiaries”) will provide a Subsidiary Guarantee on the Original Issue Date. In addition, none of the future Restricted Subsidiaries that may be organized under the laws of the PRC or any Exempted Subsidiaries (as defined below) will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee at any time in the future. Although the Indenture contains limitations on the amount of additional Indebtedness that Restricted Subsidiaries organized under the laws of the PRC may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to, or on behalf of, the Company.

The Company, for so long as any 2015 Note remains outstanding, will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC or Exempted Subsidiaries) to execute and deliver to the Trustee a supplemental indenture to the Indenture, pursuant to which such Subsidiary will Guarantee the payment of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor, as soon as practicable after such Person becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary. Notwithstanding the foregoing sentence, the Company may, for so long as any 2015 Note remains outstanding, elect to have any future Restricted Subsidiary organized outside the PRC not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee (such Restricted Subsidiary a “New Non-Guarantor Subsidiary”) at the time such entity becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary; *provided* that, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC (other than Exempted Subsidiaries) that are not Subsidiary Guarantors or JV Subsidiary Guarantors do not account for more than 25% of Total Assets.

Each Restricted Subsidiary that guarantees the Notes after the Original Issue Date other than through a JV Subsidiary Guarantee is referred to as a “Future Subsidiary Guarantor” and, upon execution of the applicable supplemental indenture to the Indenture, will be a “Subsidiary Guarantor.”

As of December 31, 2017,

- the Company and its consolidated subsidiaries had total consolidated borrowings of approximately RMB87,504.7 million (US\$13,449.2 million), of which RMB40,092.5 million (US\$6,162.1 million) was secured; and
- the Existing Non-Guarantor Subsidiaries had total liabilities (including borrowings) of approximately RMB138,613.9 million (US\$21,304.6 million).

In addition, the Existing Non-Guarantor Subsidiaries had total capital commitments and contingent liabilities of approximately RMB69,803.6 million (US\$10,728.6 million) as of December 31, 2017.

In the case of a Restricted Subsidiary (1) that is, or is proposed by the Company or any of its Restricted Subsidiaries to be, established after the Original Issue Date, (2) that is incorporated in any jurisdiction other than the PRC, and (3) in respect of which the Company or any of its Restricted Subsidiaries (x) is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% of the Capital Stock of such Restricted Subsidiary or (y) is proposing to purchase the Capital Stock of an Independent Third Party and designate such entity as a Restricted Subsidiary, the Company, for so long as any 2015 Note remains outstanding, may, concurrently with the consummation of such sale or purchase, provide a JV Subsidiary Guarantee instead of a Subsidiary Guarantee for (a) such Restricted Subsidiary and (b) the Restricted Subsidiaries of such Restricted Subsidiary that are organized in any jurisdiction other than the PRC, if the following conditions are satisfied:

- as of the date of execution of the JV Subsidiary Guarantee, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (1) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary Guarantee or (2) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in place a guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;

- such sale or issuance of Capital Stock is made to, or such purchase of Capital Stock is purchased from, an Independent Third Party at a consideration that is not less than the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company;
- concurrently with providing the JV Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee and, if applicable, the Shared Security Agent (as defined below):
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) a duly executed Security Document that pledges in favor of the Trustee the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
 - (iii) an Officers' Certificate certifying a copy of the Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
 - (iv) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantee is valid, binding and enforceable against the JV Subsidiary Guarantor providing the JV Subsidiary Guarantee (subject to customary qualifications and assumptions).

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor (other than the Collateral);
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* in right of payment with the guarantees provided for the 2015 Notes, the 2017 Notes, the January 2018 Notes and all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law).

If any is provided, the JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

- will be a general obligation of such JV Subsidiary Guarantor;
- will be enforceable only up to the JV Entitlement Amount;
- will be effectively subordinated to secured obligations of such JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- will be limited to the JV Entitlement Amount, and will be senior in right of payment to all future obligations of such JV Subsidiary Guarantor expressly subordinated in right of payment to such JV Subsidiary Guarantee; and
- will be limited to the JV Entitlement Amount, and will rank at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such JV Subsidiary Guarantor (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law).

In addition, subject to the limitations described in “Risk Factors – Risks Relating to the Subsidiary Guarantees and the Collateral”, the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor, for so long as any Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees) remains outstanding:

- will be entitled to a security interest in the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor, as described below under the caption “– Security”; shared on a *pari passu* basis with the holders of the 2015 Notes, the holders of the 2017 Notes, the holders of the January 2018 Notes and any other creditors with respect to Permitted *Pari Passu* Secured Indebtedness; and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The JV Subsidiary Guarantee of any JV Subsidiary Guarantor will not be secured.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors and JV Subsidiary Guarantors (if any) will jointly and severally Guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes; *provided* that any JV Subsidiary Guarantee will be limited to the JV Entitlement Amount. The Subsidiary Guarantors and JV Subsidiary Guarantors (if any) will (1) agree that their respective obligations under the Subsidiary Guarantees and JV Subsidiary Guarantees, as the case may be, will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be,

will be reinstated with respect to such payments as though such payment had not been made. All payments under the Subsidiary Guarantees and JV Subsidiary Guarantees, as the case may be, are required to be made in Renminbi (except in the circumstances described in “Currency Fallback” below).

Under the Indenture, and any supplemental indenture to the Indenture, as applicable:

- each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be Guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally; and
- each JV Subsidiary Guarantee will be limited to an amount which is the lower of (i) the JV Entitlement Amount and (ii) an amount not to exceed the maximum amount that can be Guaranteed by the applicable JV Subsidiary Guarantor without rendering the JV Subsidiary Guarantee, as it relates to such JV Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally.

No assurance can be given that the preceding provision limiting the maximum amount of each Subsidiary Guarantee or JV Subsidiary Guarantee will be given effect. If a Subsidiary Guarantee or JV Subsidiary Guarantee were to be rendered voidable for any reason, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, and, depending on the amount of such indebtedness, a Subsidiary Guarantor’s liability on its Subsidiary Guarantee or a JV Subsidiary Guarantor’s liability on its JV Subsidiary Guarantee could be reduced to zero.

The obligations of each Subsidiary Guarantor under its Subsidiary Guarantee and the enforceability of the Collateral granted in respect of the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors may be limited, or possibly invalid, under applicable laws. Similarly, the obligations of each JV Subsidiary Guarantor under its JV Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See “Risk Factors – Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral – The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees.”

Release of the Subsidiary Guarantees and JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor and a JV Subsidiary Guarantee given by a JV Subsidiary Guarantor (if any) may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance as described under “– Satisfaction and Discharge”;

- upon the designation by the Company of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, as an Unrestricted Subsidiary in compliance with the terms of the Indenture;
- upon the sale, disposition or merger of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, in compliance with the terms of the Indenture (including the covenants under the captions “– Certain Covenants – Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “– Certain Covenants – *Limitation on Asset Sales*” and “– Consolidation, Merger and Sale of Assets”) resulting in such Subsidiary Guarantor or JV Subsidiary Guarantor no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor or JV Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company’s other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale, disposition or merger are used for the purposes permitted or required by the Indenture;
- in the case of a Subsidiary Guarantee, upon the replacement of a Subsidiary Guarantee with a JV Subsidiary Guarantee;
- in the case of a Subsidiary Guarantor that becomes a New Non-Guarantor Subsidiary, in compliance with the terms of the Indenture; and
- when no 2015 Note remains outstanding.

In the case of a Subsidiary Guarantor with respect to which the Company or any of its Restricted Subsidiaries is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% of the Capital Stock of such Subsidiary Guarantor, the Company may concurrently with the consummation of such sale or issuance of Capital Stock, (a) instruct the Trustee to release the Subsidiary Guarantees provided by such Subsidiary Guarantor and each of its Restricted Subsidiaries organized outside the PRC, and upon such release such Subsidiary Guarantor and its Restricted Subsidiaries organized outside the PRC will become “New Non-Guarantor Subsidiaries” (such that each New Non-Guarantor Subsidiary will no longer Guarantee the Notes) and (b) instruct the Shared Security Agent to (i) discharge the pledge of the Capital Stock granted by each such New Non-Guarantor Subsidiary and (ii) discharge the pledge of Capital Stock made by the Company or any Subsidiary Guarantor over the shares it owns in such New Non-Guarantor Subsidiary, (in each case, without any requirement to seek the consent or approval of the Holders), *provided* that after the release of such Subsidiary Guarantees, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC (other than Exempted Subsidiaries) that are not Subsidiary Guarantors or JV Subsidiary Guarantors (including the New Non-Guarantor Subsidiaries) do not account for more than 25% of Total Assets. A Subsidiary Guarantee of a Subsidiary Guarantor may only be released pursuant to this paragraph if as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee or (b) requiring the Company or such Subsidiary Guarantor to deliver or keep in place a guarantee of other Indebtedness of the Company by such Subsidiary Guarantor.

Replacement of Subsidiary Guarantees with JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released following the sale or issuance by the Company or any of its Restricted Subsidiaries of Capital Stock in (x) such Subsidiary Guarantor or any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale, whether through the sale of existing shares or the issuance of new shares, is for no less than 20% of the Capital Stock of the relevant Subsidiary Guarantor, *provided* that the following conditions are satisfied or complied with:

- as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (1) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee or (2) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in force a replacement guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale is made to an Independent Third Party at a consideration that is not less than the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company;
- concurrently with the release of such Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee and, if applicable, the Shared Security Agent:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) a duly executed Security Document that pledges in favor of the Trustee the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
 - (iii) an Officers' Certificate certifying a copy of a Board Resolution to the effect that such JV Subsidiary Guarantees have been approved by a majority of the disinterested members of the Board of Directors; and
 - (iv) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantee is valid, binding and enforceable against the JV Subsidiary Guarantor providing such JV Subsidiary Guarantee (subject to customary qualifications and assumptions).

Notwithstanding the foregoing paragraph, any such sale or issuance of the Capital Stock of the relevant Subsidiary Guarantor (including where such sale results in the relevant Subsidiary Guarantor ceasing to be a Restricted Subsidiary) will need to comply with the other covenants set forth in the Indenture, including the “*Limitation on Asset Sales*” and “*Limitation on Restricted Payments*” covenants.

Any Net Cash Proceeds from the sale of such Capital Stock shall be applied by the Company (or any Restricted Subsidiary) in accordance with the “*Limitation on Asset Sales*” covenant.

No release of a Subsidiary Guarantor from its Subsidiary Guarantee or JV Subsidiary Guarantor from its JV Subsidiary Guarantee shall be effective against the Trustee or the Holders until the Trustee has received an Officers’ Certificate from the Company stating that all requirements relating to such release have been complied with and that such release is authorized and permitted by the Indenture.

SECURITY

The Company has agreed, for the benefit of the Holders, to pledge, or cause the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the Capital Stock of the initial Subsidiary Guarantors (the “Collateral”) (subject to Permitted Liens) on the Original Issue Date in order to secure the obligations of the Company under the Notes and the Indenture and of such initial Subsidiary Guarantor Pledgor under its Subsidiary Guarantee, for so long as any Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees) remains outstanding.

The Company and the initial Subsidiary Guarantor Pledgors have agreed to, for so long as any Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees) remains outstanding:

- (a) execute one or more Security Documents granting to the Trustee, for the benefit of the Holders, Liens on the relevant Collateral (subject to any Permitted Liens);
- (b) take all requisite steps under applicable laws and undertake other customary procedures in connection with the granting and perfection (if relevant) of the Lien on the relevant Collateral (subject to any Permitted Liens); and
- (c) deliver to the Trustee on the Original Issue Date an Opinion of Counsel and an Officers’ Certificate relating to each such pledge in form and substance as set forth in the Indenture.

The initial Subsidiary Guarantor Pledgors are Able Power Enterprises Limited, All Modern Investments Limited, Best Empire Investments Limited, Charm Mix Group Limited, Charm Sum Enterprises Limited, Dokino International Limited, Double Achieve Assets Limited, Eagle House Enterprises Limited, East Light Group Limited, Ease Reach Group Limited (宜達利集團有限公司), Everactive Properties Limited, Exceed New Limited, Fast Intellect Investments Limited, Favor Luck Holdings Limited, Favor Rich International Limited, Fine Sharp Investments Limited, Fine Union Group Limited, Gain Come Group Limited, Glorify Property Investments Limited, Goldprime Holdings Limited, Greater Tiger International Limited, Intellect Joy Investments Limited, Keen Villa Limited, Lead Win Enterprises Limited, Marble Mountain Group Limited, Marvel Joyday

International Limited, Max Act Investments Limited, Max Champion Holdings Limited, Max Start International Limited, Mega Make Investments Limited, Mega Universe Limited, Money Raider Enterprises Limited, Move Max Investments Limited, New Fine International Limited, New Fit Investments Limited, Peak Castle Assets Limited, Peak Gain International Limited (峰盈國際有限公司), Penders Enterprises Limited, Perfect East Investments Limited, Plenty Up Investments Limited, Prime Master Holdings Limited, Profun Group Limited, Proven Earn Holdings Limited, Rich Town Group Limited, Richly Holdings Limited, Roadstead Holdings Limited, Rocket High Group Limited, Running Leopard International Limited, Running Lion Group Limited, Running Panda Limited, See Bright Enterprises Limited, Shanghai Shimao Investment Management and Consultancy (HK) Limited, Shimao Property Holdings (BVI) Limited, Shimao Travel Limited (世茂旅遊有限公司), Sino Run Investments Limited, Smart Sea Group Limited, Super Good Group Limited, Surenew Group Limited, Talent Investor Investments Limited, Talenta Group Limited, Terimay Enterprises Limited, Tiger Go Group Limited, Top Roof International Limited, Topleigh Holdings Limited, Turbo Up Holdings Limited, Unique Choice Investments Limited, Upper Aim International Limited, Vicking International Ltd., Whole Grace Enterprises Limited, Wickfair Investments Limited, Wise Plenty Investments Limited, World Known International Limited, Xinwin International Limited, Year Grant Investments Limited, Year Joy Holdings Limited, World Rich Group Limited, Ho Yeung Group Limited (浩洋集團有限公司), Magical Year Limited and Ultimate Eagle Limited.

The Collateral will not consist of the pledge of shares by the Company in Shimao Property Holdings (BVI) Limited or Shimao Property Holdings (BVI) Limited in Peak Castle Assets Limited.

None of the Capital Stock of the Existing Non-Guarantor Subsidiaries will be pledged on the Original Issue Date or at any time in the future. In addition, none of the Capital Stock of any future Restricted Subsidiary that may be organized under the laws of the PRC or any New Non-Guarantor Subsidiary will be pledged at any time in the future. If any JV Subsidiary Guarantor is established, the Capital Stock of such JV Subsidiary Guarantor owned by the Company or any Subsidiary Guarantor will be pledged to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, as the case may be, in the manner described above. However, none of the JV Subsidiary Guarantors will provide a Security Document pledging the Capital Stock of its direct or indirect Subsidiaries as security in favor of the Trustee.

The Company has also agreed, for the benefit of the Holders, to pledge, or cause each Subsidiary Guarantor (other than a JV Subsidiary Guarantor, if any) to pledge, the Capital Stock owned directly by the Company or such Subsidiary Guarantor of any Person that becomes a Subsidiary Guarantor or JV Subsidiary Guarantor after the Original Issue Date, within 30 days after such Person becomes a Subsidiary Guarantor or JV Subsidiary Guarantor, to secure (subject to Permitted Liens) the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor Pledgor under its Subsidiary Guarantee, in the manner described above, for so long as any Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees) remains outstanding.

Each Subsidiary Guarantor that pledges Capital Stock of a Restricted Subsidiary after the Original Issue Date is referred to as a “Future Subsidiary Guarantor Pledgor” and, upon giving such pledge, will be a “Subsidiary Guarantor Pledgor.”

The Collateral will be shared on a *pari passu* basis by the Holders and the holders of other secured indebtedness including the holders of the 2015 Notes, the holders of the 2017 Notes and the holders of the January 2018 Notes. Accordingly, in the event of a default on the Notes or the other secured indebtedness and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of secured indebtedness.

The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement) is unlikely to be sufficient to satisfy the Company's and each of the Subsidiary Guarantor Pledgors' obligations under the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement), and the Collateral securing the Notes and such Subsidiary Guarantee (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement) may be reduced or diluted under certain circumstances, including the issuance of Additional Notes and other Permitted *Pari Passu* Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture and the Intercreditor Agreement. See “– *Release of Security*” and “Risk Factors – Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral – The value of the Collateral will likely not be sufficient to satisfy our obligations under the Notes, the 2015 Notes, the 2017 Notes, the January 2018 Notes and other *pari passu* secured indebtedness.”

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture, the Intercreditor Agreement and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Notes or the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement). By its nature, all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

So long as no Payment Default has occurred and is continuing, and subject to the terms of the Security Documents and the Indenture, the Company and the Subsidiary Guarantor Pledgors, as the case may be, will be entitled to exercise any and all voting rights and to receive, retain and use any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock resulting from stock splits or reclassifications, rights issues, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of Capital Stock constituting Collateral.

Permitted *Pari Passu* Secured Indebtedness

On or after the Original Issue Date, for so long as any Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees) remains outstanding, the Company and each Subsidiary Guarantor Pledgor may create Liens on the Collateral *pari passu* with the Lien for the benefit of the Holders to secure Indebtedness of the Company (including Additional Notes) or any Subsidiary Guarantor and any *Pari Passu* Guarantee with respect to such Indebtedness (such Indebtedness of the Company or any Subsidiary Guarantor and any such *Pari Passu* Guarantee, “*Permitted Pari Passu Secured Indebtedness*”); *provided* that (1) the Company or such Subsidiary Guarantor was permitted to Incur such Indebtedness under the covenant under the

caption “– *Limitation on Indebtedness and Preferred Stock*,”; (2) the holders (or their representative) of such Indebtedness (other than Additional Notes) become party to the Intercreditor Agreement referred to below; (3) the agreement in respect of such Indebtedness contains provisions with respect to releases of Collateral and such Pari Passu Guarantee is substantially similar to and no more restrictive on the Company and such Subsidiary Guarantor than the provisions of the Indenture and the Security Documents; and (4) the Company and such Subsidiary Guarantor Pledgor promptly deliver to the Trustee an Opinion of Counsel and an Officers’ Certificate with respect to corporate and collateral matters in connection with the Security Documents, stating that either (x) all necessary actions have been taken with respect to the recording, registering and filing of the Security Documents or (y) no such action is necessary to make such Lien effective. The Trustee or the Shared Security Agent, as the case may be, is permitted and authorized, without the consent of any Holder, to enter into any amendments to the Intercreditor Agreement, the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with this paragraph (including, without limitation, the appointment of any collateral agent under the Intercreditor Agreement referred to below to hold the Collateral on behalf of the Holders and the holders of Permitted Pari Passu Secured Indebtedness).

Except for certain Permitted Liens and the Permitted Pari Passu Secured Indebtedness, the Company and its Restricted Subsidiaries will not be permitted to issue or Incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Notes then outstanding.

Intercreditor Agreement

The Company, the Subsidiary Guarantor Pledgors, Citibank, N.A. (the “Shared Security Agent”) and Citibank, N.A., as trustee, entered into an amended and restated intercreditor agreement (the “Intercreditor Agreement”) dated January 14, 2010, to which the 2015 Notes Trustee acceded on February 10, 2015, to which the 2017 Notes Trustee acceded to on July 3, 2017, to which the January 2018 Notes Trustee acceded to on January 30, 2018 and to which the Trustee acceded on the Original Issue Date, pursuant to which the Trustee will agree to (1) share equal priority and *pro rata* entitlement in and to the Collateral; (2) the conditions that are applicable to the release of or granting of any Lien on such Collateral; and (3) the conditions under which their rights with respect to such Collateral and the Indebtedness secured thereby will be enforced.

In connection with the Incurrence of any future Permitted Pari Passu Secured Indebtedness (other than Additional Notes), the holders of such Permitted Pari Passu Secured Indebtedness (or their agent, trustee or representative) will accede to the Intercreditor Agreement and become parties to it.

By accepting the Notes, each Holder shall be deemed to have consented to the execution of the Intercreditor Agreement, any amendments or modifications thereto, and any future intercreditor agreement required under the Indenture.

Enforcement of Security

The Liens securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors will be granted to the Shared Security Agent, subject to *pari passu* sharing, for so long as any Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees) remains outstanding. The Shared Security Agent holds such Liens and security interests in the Collateral granted pursuant to the Security Documents with sole authority as directed by the written instruction of the Holders to exercise remedies under the Security Documents. The Shared Security Agent has agreed to act as secured party on behalf of the Holders under the applicable Security Documents, to follow the instructions provided to it under the Indenture and the Security Documents and to carry out certain other duties.

The Indenture and/or the Security Documents principally provide that, at any time while any of the Notes are outstanding, the Shared Security Agent has the exclusive right to manage, perform and enforce the terms of the Security Documents relating to the Collateral and to exercise and enforce all privileges, rights and remedies thereunder according to its direction, including to take or retake control or possession of such Collateral and to hold, prepare for sale, process, lease, dispose of or liquidate such Collateral, including, without limitation, following the occurrence of an Event of Default under the Indenture.

All payments received and all amounts held by the Shared Security Agent in respect of the Collateral under the Security Documents will be applied as follows:

first, to the Shared Security Agent for any unpaid fees, costs and expenses under the Intercreditor Agreement or the Security Documents;

second, pro rata to each of the Trustee for the benefit of Holders, the 2015 Notes Trustee for the benefit of the holders of the 2015 Notes, the 2017 Trustee for the benefit of the holders of the 2017 Notes, the January 2018 Trustee for the benefit of the holders of the January 2018 Notes and, to the extent applicable, to holders of future Permitted *Pari Passu* Secured Indebtedness (or their representative), inclusive of any fees and expenses of each secured party, and the principal, interest and premium thereon and for the benefit of the holders of each thereof in accordance with the terms of the relevant secured party document; and

third, any surplus remaining after such payments will be paid to the Company or the Subsidiary Guarantor Pledgors or to whomever may be lawfully entitled thereto.

The Shared Security Agent may decline to foreclose on the Collateral or exercise remedies available if it does not receive indemnification to its satisfaction. In addition, the Shared Security Agent's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Shared Security Agent's Liens on the Collateral. Neither the Trustee, the Shared Security Agent nor any of their respective officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents, for the creation, perfection, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so.

The Security Documents provide that the Company and the Subsidiary Guarantor Pledgors will indemnify the Trustee and the Shared Security Agent for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind imposed against the Trustee or the Shared Security Agent arising out of the Security Documents except to the extent that any of the foregoing are finally judicially determined to have resulted from the gross negligence or willful misconduct of the Trustee.

This section, “– *Enforcement of Security*,” shall be subject to any amendments to the Intercreditor Agreement, the Security Documents or the Indenture to permit the creation of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with “– *Permitted Pari Passu Secured Indebtedness*” above.

Release of Security

The security created in respect of the Collateral granted under the Security Documents may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon defeasance and discharge of the Notes as provided below under the caption “– Satisfaction and Discharge”;
- upon certain dispositions of the Collateral in compliance with the covenants under the captions “– *Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries*” or “– *Limitation on Asset Sales*” or in accordance with the provision under the caption “– Consolidation, Merger and Sale of Assets”;
- with respect to security granted by a Subsidiary Guarantor Pledgor, upon the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the terms of the Indenture;
- with respect to a Subsidiary Guarantor that becomes a New Non-Guarantor Subsidiary, the release of the pledge of Capital Stock made by the Company or any Subsidiary Guarantor over the shares it owns in such New Non-Guarantor Subsidiary;
- in connection with and upon execution of a JV Subsidiary Guarantee to replace a Subsidiary Guarantee with respect to all pledges of Capital Stock granted by such JV Subsidiary Guarantor or its Subsidiaries in its direct and indirect Subsidiaries, in accordance with the terms of the Indenture;
- with respect to any pledge over any Capital Stock of any Subsidiary Guarantor or JV Subsidiary Guarantor, upon the designation by the Company of such Subsidiary Guarantor or JV Subsidiary Guarantor as an Unrestricted Subsidiary in accordance with the terms of the Indenture; and
- with respect to the security over the Collateral pledged to secure the Notes or the Subsidiary Guarantees, upon repayment of all Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees).

FURTHER ISSUES

Subject to the covenants described below and in accordance with the terms of the Indenture, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any) and the pledges of the Collateral) in all respects (or in all respects except for the issue date, issue price and the date of the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted under the “*Limitation on Indebtedness and Preferred Stock*” covenant described below.

OPTIONAL REDEMPTION

At any time and from time to time on or after March 15, 2020, the Company may at its option redeem the Notes, in whole or in part, at a redemption price equal to 102.0% of the principal amount plus accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time and from time to time prior to March 15, 2020, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 105.75% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

At any time prior to March 15, 2020, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.

Selection and Notice

The Company will give not less than 15 days’ nor more than 60 days’ notice of any redemption. If less than all of the Notes are to be redeemed at any time, the Notes for redemption will be selected as follows:

- (1) if the Notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the Notes are listed (if any) or any applicable requirements of the clearing systems through which the Notes are held; or
- (2) if the Notes are not listed on any national securities exchange, on a pro rata basis, by lot or by such other method as the Trustee in its sole and absolute discretion shall deem to be fair and appropriate unless otherwise required by law or by applicable stock exchange or clearing system requirements.

A Note of CNY1,000,000 in principal amount or less shall not be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. With respect to any Certificated Note, a new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on the Notes or portions of them called for redemption.

Repurchase of Notes Upon a Change of Control Triggering Event

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a “Change of Control Offer”) at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company’s failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control Triggering Event under the Notes will also constitute an event of default under certain debt instruments of the Company and its Subsidiaries. Future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The Company’s ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company’s and the Subsidiary Guarantor’s then-existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See “Risk Factors – Risks Relating to the Notes – We may not be able to repurchase the Notes upon a Change of Control Triggering Event.”

The phrase “all or substantially all,” as used with respect to the assets of the Company in the definition of “Change of Control,” will likely be interpreted under applicable law of the relevant jurisdictions and will be dependent upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of “all or substantially all” the assets of the Company has occurred.

Notwithstanding the above, the Company will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes the Change of Control Offer in the same manner at the same time and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

NO MANDATORY REDEMPTION OR SINKING FUND

There will be no mandatory redemption or sinking fund payments for the Notes.

ADDITIONAL AMOUNTS

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees and JV Subsidiary Guarantees (if any) 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 Company, a Surviving Person (as defined under the caption “– Consolidation, Merger and Sale of Assets”) or an applicable Subsidiary Guarantor or an applicable JV Subsidiary Guarantor is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein), including, without limitation, if applicable, the PRC (each, as applicable, a “Relevant Taxing Jurisdiction”) or any jurisdiction through which payments are made (or any political subdivision or taxing authority thereof or therein) (together with each Relevant Taxing Jurisdiction, as applicable, a “Relevant 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 Company, a Surviving Person or the applicable Subsidiary Guarantor or the applicable JV Subsidiary Guarantor, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note 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:

- (1) for or on account of:
 - (a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
 - (i) the existence of any present or former connection between the Holder or beneficial owner of such Note and the Relevant Jurisdiction other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee or JV Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant 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;
 - (ii) the presentation of such Note (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 Note 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 Note for payment on any date within such 30-day period;

- (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person or any Subsidiary Guarantor or JV Subsidiary Guarantor addressed to the Holder to provide information concerning such Holder's or beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request would have reduced or eliminated any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder;
 - (iv) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;
 - (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;
 - (c) any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended ("FATCA"), any current or future Treasury Regulations or rulings promulgated thereunder, any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA, any law, regulation or other official guidance enacted in any jurisdiction implementing such an intergovernmental agreement or FATCA, or any agreement with the U.S. Internal Revenue Service under FATCA; or
 - (d) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b) and (c); or
- (2) with respect to any payment of the principal of, or premium, if any, or interest on, such Note or any payment under any Subsidiary Guarantee or JV Subsidiary Guarantee to a Holder, if the Holder 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 Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor, with respect to the fiduciary, 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.

As a result of these provisions, there are circumstances in which taxes could be withheld or deducted but Additional Amounts would not be payable to some or all beneficial owners of Notes.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest, on any Note or under any Subsidiary Guarantee or JV Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

REDEMPTION FOR TAXATION REASONS

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction affecting taxation; or
- (2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment is proposed and becomes effective (i) with respect to the Company or any initial Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, on or after the date such Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, with respect to any payment due or to become due under the Notes or the Indenture, the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, will deliver to the Trustee:

- (1) an Officers' Certificate stating that such change or amendment referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Taxing Jurisdiction stating that the requirement to pay such Additional Amounts results from such change or amendment referred to in the prior paragraph.

The Trustee shall accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above and shall not be obligated to verify the accuracy or content thereof, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

CERTAIN COVENANTS

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Preferred Stock

- (1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), and the Company will not permit any Restricted Subsidiary to issue Preferred Stock, *provided* that the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness) and any Non-Guarantor 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 2.5 to 1.0. Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).
- (2) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following (“Permitted Indebtedness”):
 - (a) Indebtedness under the Notes (excluding any Additional Notes and any Permitted Pari Passu Secured Indebtedness of the Company) and each Subsidiary Guarantee and JV Subsidiary Guarantee;
 - (b) any Pari Passu Guarantees;
 - (c) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (d); *provided* that such Indebtedness of Non-Guarantor Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness;
 - (d) Indebtedness of the Company or any Restricted Subsidiary owed to the Company 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 Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (d), if the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness must expressly be subordinated in right of payment to the Notes, in the case of the Company, the Subsidiary Guarantee of such Subsidiary Guarantor, in the case of a Subsidiary Guarantor, or the JV Subsidiary Guarantee of such JV Subsidiary Guarantor, in the case of a JV Subsidiary Guarantor; and (iii) if the Indebtedness is owed to the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor, such Indebtedness must be evidenced by an unsubordinated promissory note or a similar instrument under applicable law;

- (e) Indebtedness (“Permitted Refinancing Indebtedness”) issued in exchange for, or the net proceeds of which are used to refinance or refund, then outstanding Indebtedness Incurred under the immediately preceding paragraph (1) or clause (a), (b), (c), (h), (p), (q), (r), (s), (v), (w) or (y) of this paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced or refunded (plus premiums, accrued interest, fees and expenses); *provided* that (i) Indebtedness the proceeds of which are used to refinance or refund the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee shall only be permitted under this clause (e) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, 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 Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, (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 or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded, (iii) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor and (iv) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of Indebtedness of any JV Subsidiary Guarantor;
- (f) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations entered into in the ordinary course of business and designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation;
- (g) Pre-Registration Mortgage Guarantees by the Company or any Restricted Subsidiary;
- (h) Indebtedness Incurred by the Company or any Restricted Subsidiary for the purpose of financing (x) all or any part of the purchase price 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 Company or a Restricted Subsidiary, including any such purchase through the acquisition of Capital Stock of any Person that owns such real or personal property or equipment, or (y) all or any part of the purchase price or the cost of development, construction or improvement of 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 Company or such Restricted Subsidiary, *provided* that, in the case of clauses (x) and (y), (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, (B) such Indebtedness shall be Incurred no later than

180 days after the acquisition of such property or completion of such development, construction or improvement and (C) on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (h) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (r), (s), (u), (v), (w) and (y) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses or this clause (h) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 35% of Total Assets;

- (i) Indebtedness Incurred by the Company 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);
- (j) Indebtedness Incurred by the Company 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 Company or such Restricted Subsidiary of a demand for reimbursement;
- (k) 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 Company 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 in the nature of such Guarantee shall at no time exceed the gross proceeds actually received from the sale of such business, assets or Restricted Subsidiary;
- (l) 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 ten Business Days of Incurrence;
- (m) Indebtedness Incurred by the Company constituting a Subordinated Shareholder Loan;
- (n) (i) Guarantees by the Company or any Subsidiary Guarantor of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant or (ii) Guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred under clause (f) or (h) above or clause (o) below or (iii) Guarantees by any JV Subsidiary Guarantor of Indebtedness of any other JV Subsidiary Guarantor that is a direct or indirect Subsidiary or parent of such JV Subsidiary Guarantor, which Indebtedness was permitted to be Incurred by another provision of this covenant;

- (o) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (o) at any time outstanding does not exceed the greater of US\$80.0 million and 0.5% of Total Assets (or the Dollar Equivalent thereof);
- (p) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US\$80.0 million (or the Dollar Equivalent thereof);
- (q) Indebtedness Incurred by any Restricted Subsidiary which is secured by Investment Properties, and Guarantees thereof by the Company or any such Restricted Subsidiary;
- (r) Bank Deposit Secured Indebtedness Incurred by the Company or any of its Restricted Subsidiaries, *provided* that, on the date of Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of such Indebtedness permitted by this clause (r) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clause (h) above or clauses (s), (u), (v), (w) and (y) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (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 Company or any Restricted Subsidiary arising from any Investment made by a Trust Company Investor in a Restricted Subsidiary; *provided* that, on the date of the Incurrence of such Indebtedness or issuance of Preferred Stock and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness and Preferred Stock permitted by this clause (s) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h) and (r) above and clauses (u), (v), (w) and (y) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (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) Indebtedness of the Company 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;
- (u) Indebtedness of the Company 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; *provided* that, on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (u) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h), (r) and (s) above and clauses (v), (w) and (y) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (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;

- (v) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting a Guarantee of Indebtedness of any Person (other than a Restricted Subsidiary) by the Company or such Restricted Subsidiary, if the aggregate of all Indebtedness Incurred under this clause (v) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h), (r), (s) and (u) above and clauses (w) and (y) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (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;
- (w) Acquired Indebtedness of any Restricted Subsidiary Incurred and outstanding on the date on which such Person becomes 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 such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (w) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clauses (h), (r), (s), (u) and (v) above and (y) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (w) 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;
- (x) Indebtedness of any Group Financial Institution Incurred for the purpose of such Group Financial Institution's financial, trust, insurance, securities, trading, internet, investment and/or services businesses; provided that (i) such Indebtedness is repaid within such time limits prescribed by applicable laws, rules and regulations, (ii) the Incurrence of such Indebtedness is consistent with standard industry practices in the financial, trust, insurance, securities, trading, internet, investment and/or services businesses and (iii) such Indebtedness is Incurred in accordance with the applicable rules and regulations issued by the China Banking Regulatory Commission, China Securities Regulatory Commission, China Insurance Regulatory Commission and all other applicable laws, rules or regulatory requirements, as the case may be; and
- (y) Indebtedness Incurred by the Company or any Restricted Subsidiary under Credit Facilities; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (y) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clauses (h), (r), (s), (u), (v) and (w) above and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (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.

- (3) For purposes of determining compliance with this “*Limitation on Indebtedness and Preferred Stock*” 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 the first paragraph of part (1), the Company, 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 due solely to the result of fluctuations in the exchange rates of currencies, *provided* that such Indebtedness was permitted to be incurred at the time of such Incurrence.

Limitation on Restricted Payments

The Company 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 being collectively referred to as “Restricted Payments”):

- (1) declare or pay any dividend or make any distribution on or with respect to the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than dividends or distributions payable solely in shares of the Company’s or any of its Restricted Subsidiaries’ 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 Company or any Restricted Subsidiary;
- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company 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 Company held by any Persons other than the Company or any Restricted Subsidiary, other than the purchase of Capital Stock of a Person pursuant to a Staged Acquisition Agreement or Minority Interest Staged Acquisition Agreement;
- (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 Notes or any of the Subsidiary Guarantees or any of the JV Subsidiary Guarantees (excluding any intercompany Indebtedness between or among the Company and any of its Restricted Subsidiaries); 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 Company could not Incur at least US\$1.00 of Indebtedness under the proviso in the first sentence of paragraph (1) of the covenant under the caption “– *Limitation on Indebtedness and Preferred Stock*”; or

- (c) such Restricted Payment, together with the aggregate amount of all (1) Restricted Payments made by the Company and its Restricted Subsidiaries after the Original Issue Date and (2) payments made by the Company and its Restricted Subsidiaries after the Measurement Date but on or before the Original Issue Date that would have been Restricted Payments had they been made after the Original Issue Date, shall exceed the sum of:
- (i) 50% of the aggregate amount of the Consolidated Net Income of the Company (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 October 1, 2006 and ending on the last day of the Company's most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its 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 Company after the Measurement 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 Subsidiary of the Company, including any such Net Cash Proceeds received upon (A) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (B) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock) in each case after deducting 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 Company; plus
 - (iii) the amount by which Indebtedness of the Company or any of its Restricted Subsidiaries is reduced on the Company's consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Measurement Date of any Indebtedness of the Company or any of its Restricted Subsidiaries convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company 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 Measurement Date in any Person resulting from (A) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to the Company 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 Measurement Date, (B) the unconditional release of a Guarantee (to the extent such Guarantee when given constituted a Restricted Payment made under this covenant) provided by the Company or a Restricted Subsidiary after the Measurement Date of an obligation of another Person, (C)

to the extent that an Investment made after the Measurement Date 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 made by the Company or a Restricted Subsidiary after the Measurement 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 Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence, other than to a Subsidiary of the Company, of Permitted Refinancing Indebtedness;
- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company, any Subsidiary Guarantor or JV Subsidiary Guarantor (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 Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor (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 Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or a sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor (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) 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 Company, to all holders of any class of Capital Stock of such Restricted Subsidiary;

- (6) dividends paid to, or the purchase of Capital Stock of any Restricted Subsidiary held by any Trust Company Investor in respect of any Indebtedness outstanding on the Original Issue Date or the type of Indebtedness or Preferred Stock described under paragraph (2)(s) of the “*Limitation on Indebtedness and Preferred Stock*” covenant;
- (7) the purchase by the Company or a Restricted Subsidiary of Capital Stock of any Restricted Subsidiary that is not Wholly Owned, directly or indirectly, by the Company from an Independent Third Party pursuant to an agreement entered into between/among the Company or any Restricted Subsidiary and such Independent Third Party solely for the purpose of acquiring real property or land use rights;
- (8) (A) the repurchase, redemption or other acquisition or retirement for value of the Capital Stock of the Company or any Restricted Subsidiary (directly or indirectly, including through any trustee, agent or nominee) in connection with an employee benefit plan, and any corresponding Investment by the Company or any Restricted Subsidiary in any trust or similar arrangements to the extent of such repurchased, redeemed, acquired or retired Capital Stock, or (B) the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary held by an employee benefit plan of the Company or any Restricted Subsidiary, any current or former officer, director, consultant, or employee of the Company or any Restricted Subsidiary (or permitted transferees, estates or heirs of any of the foregoing); *provided* that the aggregate consideration paid for all such repurchased, redeemed, acquired or retired Capital Stock shall not exceed US\$50.0 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination);
- (9) cash payment in lieu of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company, *provided, however*, that any such cash payment shall not be for the purpose of evading the limitation of this “– *Limitation on Restricted Payments*” covenant (as determined in good faith by the Board of Directors of the Company);
- (10) the payment of any dividend or distribution payable or paid in Capital Stock of any Unrestricted Subsidiary or in options, warrants or other rights to acquire shares of such Capital Stock;
- (11) the repurchase of the Capital Stock of the Company by the Company or the declaration and payment of dividends on the Common Stock of the Company by the Company in an aggregate amount not to exceed 25.0% of profit for the year based on the consolidated financial statements for any fiscal year ending after the Original Issue Date;
- (12) the distributions or payments of Securitization Fees in connection with Receivable Financing; or
- (13) payments, including distributions, made under or in connection with any Perpetual Bond Obligation pursuant to the terms thereof or in connection with a repurchase or redemption thereof,

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

The Restricted Payment permitted pursuant to clause (1) of the preceding paragraph shall be included in calculating whether the conditions of clause (c) of the first paragraph of this “– *Limitation on Restricted Payments*” covenant have been met with respect to any subsequent Restricted Payments.

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 Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities (other than any Restricted Payments set forth in clauses (5) through (13) above and any Investment deemed to have been made by the Company or any Restricted Subsidiary in the Restructuring Group in connection with the Restructuring upon designation of such Subsidiaries as Unrestricted Subsidiaries (to the extent such Investment does not constitute a Permitted Investment pursuant to clause (17) of the definition thereof)) that are required to be valued by this covenant will be the 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 (other than any Restricted Payments set forth in clauses (5) through (13) above and any Investment deemed to have been made by the Company or any Restricted Subsidiary in the Restructuring Group in connection with the Restructuring upon designation of such Subsidiaries as Unrestricted Subsidiaries (to the extent such Investment does not constitute a Permitted Investment pursuant to clause (17) of the definition thereof) in excess of US\$10.0 million (or the Dollar Equivalent thereof)), the Company 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 “– *Limitation on Restricted Payments*” covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided below, the Company 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) declare or pay dividends or make any other distribution on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;
 - (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;
 - (c) make loans or advances to the Company or any other Restricted Subsidiary; or
 - (d) sell, lease or transfer any of its property or assets to the Company 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 Company or any Restricted Subsidiary to other Indebtedness Incurred by the Company or any Restricted Subsidiary; and (iii) the provisions contained in documentation governing Indebtedness requiring transactions between or among the Company 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 Original Issue Date, or in the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Indenture, the Security Documents, or under any Permitted Pari Passu Secured Indebtedness or Pari Passu Guarantee, 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 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 government order;
 - (c) existing with respect to any Person or the property or assets of such Person acquired by the Company 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 covenant 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, or (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 Company or any Restricted Subsidiary not otherwise prohibited by the Indenture 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 Company or any Restricted Subsidiary in any manner material to the Company 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 or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “– *Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries*,” “– *Limitation on Indebtedness and Preferred Stock*” and “– *Limitation on Asset Sales*” covenants;

- (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness or issuance of Preferred Stock of the type described under clause (2)(h), (2)(o), (p), (q), (r), (s), (w), (x) or (y) of the “*Limitation on Indebtedness and Preferred Stock*” covenant 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 Company to make any required payment on the Notes 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 shareholders’ agreement, joint venture agreements and other similar agreements permitted under the Indenture, 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 Company to make the required payments on the Notes, or (y) any Subsidiary Guarantor or JV Subsidiary Guarantor to make required payments under its Subsidiary Guarantee or JV Subsidiary Guarantee; 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 Indenture 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.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Company 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 Company or a Restricted Subsidiary;
- (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 Company or a Restricted Subsidiary;

- (3) for the issuance or sale of the 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 the “– *Limitation on Restricted Payments*” covenant if made on the date of such issuance or sale and *provided* that the Company complies with the “– *Limitation on Asset Sales*” covenant; 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 Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the “– *Limitation on Asset Sales*” covenant.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

To the extent any Subsidiary Guarantee or JV Subsidiary Guarantee remains outstanding, the Company will not permit any Restricted Subsidiary which is not a Subsidiary Guarantor or a JV Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness (“Guaranteed Indebtedness”) of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor, unless (1) (a) such Restricted Subsidiary, simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee (in the case of the Guaranteed Indebtedness of the Company or a Subsidiary Guarantor) or JV Subsidiary Guarantee (in the case of the Guaranteed Indebtedness of a JV Subsidiary Guarantor) of payment of the Notes 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 Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, until the Notes have been paid in full or (2) such Guarantee and such Guaranteed Indebtedness are permitted by clause (2)(c), (2)(d), (2)(n)(ii) (other than, in the case of clause (2)(n)(ii), (x) Guarantee by a PRC Restricted Subsidiary of the Indebtedness of a non-PRC Restricted Subsidiary that is not a Subsidiary of such PRC Subsidiary or (y) a Guarantee by a non-PRC Restricted Subsidiary that is not a Subsidiary Guarantor or a JV Subsidiary Guarantor of Indebtedness of a Subsidiary Guarantor or a JV Subsidiary Guarantor) or (2)(r) (in the case of clause (2)(r), with respect to the Guarantee provided by the Company or 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) any Bank Deposit Secured Indebtedness) under the caption “– *Limitation on Indebtedness and Preferred Stock.*”

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, or (2) is subordinated in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes, the Subsidiary Guarantee or the JV Subsidiary Guarantee.

The Company will not permit any JV Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness of the Company or any Subsidiary Guarantor unless the aggregate claims of the creditor under such guarantee will be limited to the JV Entitlement Amount. If any JV Subsidiary Guarantor guarantees any Indebtedness of the Company or any Subsidiary Guarantor where the aggregate claims of the creditor under such guarantee exceeds the JV Entitlement Amount, such JV Subsidiary Guarantee shall be replaced with a Subsidiary Guarantee given by such JV Subsidiary Guarantor such that the JV Subsidiary Guarantor will become a Subsidiary Guarantor.

Limitation on Transactions with Shareholders and Affiliates

The Company 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 Company or (y) any Affiliate of the Company (each an "Affiliate Transaction"), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company; and
- (2) the Company delivers to the Trustee:
 - (a) 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), 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\$20.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause (2)(a) above, an opinion as to the fairness to the Company or the relevant Restricted Subsidiary of such Affiliate Transaction from a financial point of view 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 Company or any Restricted Subsidiary who are not employees of the Company or any Restricted Subsidiary;
- (2) transactions between or among the Company 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 clause (1), (2) or (3) of the first paragraph of the covenant described above under the caption “– *Limitation on Restricted Payments*” if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company;
- (5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme;
- (6) any transaction between (A) the Company or any Restricted Subsidiary and (B) any entity in the Restructuring Group entered into in connection with the Hotel Restructuring, including, without limitation, transactions entered into for purposes of any reorganization in connection with the Hotel Restructuring and the entry into, and the performance thereof, of any underwriting agreement or other transaction documents in connection with the Hotel Restructuring;
- (7) any transaction between (A) the Company or any Restricted Subsidiary and (B) any entity in the Restructuring Group entered into in the ordinary course of business, on fair and reasonable terms and disclosed in the offering document issued in connection with the Hotel Restructuring, or any amendment or modification or extension or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original transaction described in the offering document issued in connection with the Hotel Restructuring and in compliance with the rules of the relevant Qualifying Exchange;
- (8) any purchase of Capital Stock of the type specified in clause (6) or (7) of the second paragraph of the covenant entitled “– *Limitation on Restricted Payments*” or the purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement; or
- (9) any repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary pursuant to clause (8) of the second paragraph of the covenant entitled “– *Limitation on Restricted Payments.*”

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the “– *Limitation on Restricted Payments*” covenant, (ii) Investments in any Person made under clause (16) of the definition of “Permitted Investment,” *provided* that such Investment is on a *pro rata* basis (or on a basis no less favorable to the Company than on a *pro rata* basis) to the interest the Company or any of its Restricted Subsidiary has in such entity as compared to the other shareholders or partners of such entity, (iii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date and (iv) any transaction between or among the Company, any Wholly Owned Restricted

Subsidiary and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary or between or among the Company or a Restricted Subsidiary on the one hand and a Minority Joint Venture or an Unrestricted Subsidiary on the other hand; *provided* that in the case of this clause (iv), (a) such transaction is entered into in the ordinary course of business and (b) none of the shareholders or partners (other than the Company or any Restricted Subsidiary) of or in such Minority Joint Venture, Unrestricted Subsidiary or Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such shareholder or partner being an officer or director of such Restricted Subsidiary, Minority Joint Venture or Unrestricted Subsidiary, as the case may be).

Limitation on Liens

For so long as any Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees) remains outstanding

- (1) the Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien on the Collateral (other than Permitted Liens); and
- (2) the Company will not, and will not permit any of its Restricted Subsidiaries 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 (other than the Collateral), whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are equally and ratably secured by (or, if the obligation or liability to be secured by such Lien is subordinated in right of payment to the Notes, prior to) such Lien.

After the Lien on the Collateral has been released in accordance with the terms of the Indenture, so long as any Note remains outstanding, the Company will not, and the Company will not permit any of its Restricted Subsidiaries to, create or have outstanding, any Lien, upon the whole or any part of its present or future assets or properties of any kind to secure any Relevant Indebtedness (or to secure for the benefit of holders thereof any guarantee or indemnity in respect of such Relevant Indebtedness) without at the same time or prior thereto according to the Notes (i) the same security equally and ratably as is created or subsisting to secure any such Relevant Indebtedness (or such guarantee or indemnity in respect of such Relevant Indebtedness) or (ii) other security as consented to by the holders of a majority in principal amount of the Notes then outstanding, unless, after giving effect thereto, the aggregate outstanding principal amount of all such secured Relevant Indebtedness (other than the Indebtedness secured by Liens described in clauses (1) through (5) below) would not exceed 10.0% of the Company's Tangible Net Worth. The foregoing restriction will not apply to:

- (1) any Lien existing on any property or asset prior to the acquisition thereof by the Company or any Subsidiary or arising after such acquisition pursuant to contractual commitments entered into prior to and not in contemplation of such acquisition;
- (2) any Lien on any property or asset securing Relevant Indebtedness incurred or assumed for the purpose of financing the purchase price thereof or the cost of construction, improvement or repair of all or any part thereof (including, in the case of the acquisition of the equity interests of an entity which acquisition is financed by Relevant Indebtedness, a Lien on such equity interests and a Lien on the property or assets of such entity

acquired); provided that such Lien attaches to such property or assets concurrently with or within 12 months after the acquisition thereof or completion of construction, improvement or repair thereof;

- (3) any Lien arising or already arisen automatically by operation of law which is promptly discharged or disputed in good faith by appropriate proceedings;
- (4) Liens on money paid to or money or securities deposited with a fiscal agent, trustee or depository to pay or discharge in full the obligations of the Company or any Subsidiary in respect of Relevant Indebtedness (provided that such money or securities so paid or deposited, and the proceeds therefrom, will be sufficient to pay or discharge such obligations in full); or
- (5) any Lien arising out of the refinancing, extension, renewal or refunding of any Relevant Indebtedness secured by any Lien permitted by any of the foregoing clauses; provided that such Indebtedness is not increased and is not secured by any additional property or assets.

Limitation on Sale and Leaseback Transactions

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

- (1) the Company or any Restricted Subsidiary could have (a) incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described above under “– *Limitation on Indebtedness and Preferred Stock*” and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption “– *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 that 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 that Sale and Leaseback Transaction is permitted by, and the Company or any Restricted Subsidiary applies the proceeds of such transaction in compliance with, the covenant described below under the caption “– *Limitation on Asset Sales*.”

Limitation on Asset Sales

The Company 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 Company 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;
- (3) at least 75% of the consideration received consists of cash, Temporary Cash Investment or Replacement Assets; *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$80.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing. For purposes of this provision, each of the following will be deemed to be cash:
 - (a) any liabilities, as shown on the Company's most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and
 - (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company 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 Company (or any Restricted Subsidiary, as the case may be) may apply such Net Cash Proceeds to:

- (1) permanently repay Senior Indebtedness of the Company or a Subsidiary Guarantor or any Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or
- (2) acquire Replacement Assets.

Pending application of such Net Cash Proceeds as set forth in clause (1) or (2) above, the Company or any Restricted Subsidiary may make an Investment in cash or Temporary Cash Investments.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1), (2) and (3) 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 Company must make an Offer to Purchase Notes 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 Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes 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 the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes (and such other *pari passu* Indebtedness) to be purchased on a pro rata basis. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Use of Proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (1) in the approximate amounts and for the purposes specified, including any adjustment in response to changes in acquisition or development plans as contemplated, under the caption “*Use of Proceeds*” in this offering memorandum and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in Temporary Cash Investment.

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 Company nor any Restricted Subsidiary Guarantor 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 Company; (4) such Restricted Subsidiary does not own any Disqualified Stock of the Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under the caption “– *Limitation on Indebtedness and Preferred Stock*” or such Lien would violate the covenant described under the caption “– *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 by the covenant described under “– *Limitation on Restricted Payments*” (other than any Investment deemed to have been made by the Company or any Restricted Subsidiary in the Hotel Group in connection with the Hotel Restructuring upon designation of the Subsidiaries in the Hotel Group as Unrestricted Subsidiaries, *provided* that (i) the Board of Directors of the Company has determined in good faith that the designation of the Subsidiaries in the

Hotel Group as Unrestricted Subsidiaries is necessary to obtain approval from a Qualifying Exchange for the Hotel Restructuring and (ii) at the time of such designation, the members of the Restructuring Group remain Subsidiaries of the Company.

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 by the covenant described under the caption “– *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 by the covenant described under the caption “– *Limitation on Liens*”; (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); (5) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor or a JV Subsidiary Guarantor to the extent required under the caption “– *The Subsidiary Guarantees and JV Subsidiary Guarantees*”; and (6) if such Restricted Subsidiary is not organized under the laws of the PRC, all Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary shall be pledged to the extent required under “– *Security*.”

Governmental Approvals and Licenses; Compliance with Law

The Company 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 businesses of the Company and the Restricted Subsidiaries; (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 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 Company and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor to perform its obligations under the Notes, the relevant Subsidiary Guarantee, the relevant JV Subsidiary Guarantee or the Indenture.

Anti-Layering

The Company will not Incur, and will not permit any Subsidiary Guarantor or JV Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company, such Subsidiary Guarantor or such JV Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes, the applicable Subsidiary Guarantee or the applicable JV Subsidiary Guarantee, 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.

SUSPENSION OF CERTAIN COVENANTS

If, on any date following the date of the Indenture, the Company has a rating of Investment Grade from two of the three Rating Agencies and no Default has occurred and is continuing (a “Suspension Event”), then, beginning on that day, the provisions of the Indenture summarized under the following captions will be suspended:

- (1) “– Certain Covenants – Limitation on Indebtedness and Preferred Stock”;
- (2) “– Certain Covenants – Limitation on Restricted Payments”;
- (3) “– Certain Covenants – Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;
- (4) “– Certain Covenants – Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries”;
- (5) “– Certain Covenants – Limitation on Sale and Leaseback Transactions”;
- (6) “– Certain Covenants – Limitation on Asset Sales”;
- (7) “– Certain Covenants – Limitation on Issuances of Guarantees by Restricted Subsidiaries”;
and
- (8) clauses (3) and (4) and (5)(x) under the first and second paragraphs under
“– Consolidation, Merger and Sale of Assets.”

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under the caption “– Certain Covenants – *Designation of Restricted and Unrestricted Subsidiaries*” or the definition of “Unrestricted Subsidiary.”

Such covenants will be reinstated and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant summarized under “– Certain Covenants – *Limitation on Restricted Payments*” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended. There can be no assurance that the Company will ever achieve a rating of Investment Grade from two of the three Rating Agencies or that any such rating will be maintained.

PROVISION OF FINANCIAL STATEMENTS AND REPORTS

- (1) So long as any of the Notes remain outstanding, the Company 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 Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company's common shares are 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 Company ceases to be listed for trading on a recognized stock exchange, the Company 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 Company, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) 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 Company, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) 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 Company, copies of its unaudited financial statements (on a consolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company 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 Notes remain outstanding, the Company will provide to the Trustee (a) within 120 days after the close of each fiscal year ending after the Original Issue Date, an Officers' Certificate stating the Fixed Charge Coverage Ratio with respect to the four most recent fiscal quarter 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 Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation, *provided* that the Company 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 (b) as soon as possible and in any event within 30 days after the Company 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 Company proposes to take with respect thereto.

EVENTS OF DEFAULT

The following events are defined as “Events of Default” in the Indenture with respect to the Notes:

- (1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- (2) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 consecutive days;
- (3) default in the performance or breach of the provisions of the covenants described under – Consolidation, Merger and Sale of Assets,” the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions “– Repurchase of Notes Upon a Change of Control Triggering Event” or “– Certain Covenants – *Limitation on Asset Sales*,” or the failure by the Company to create, or cause its Restricted Subsidiaries to create, a Lien on the Collateral (subject to any Permitted Liens) in accordance with the covenant described under the caption “– Security”, for so long as any Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees) remains outstanding;
- (4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1), (2) or (3) 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 Notes;
- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary (other than a Subordinated Shareholder Loan) having an outstanding principal amount of US\$50.0 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, (a) 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 (b) the failure to make a principal payment when due;
- (6) one or more final judgments or orders for the payment of money are rendered against the Company 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\$50.0 million (in excess of amounts which the Company’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;

- (7) an involuntary case or other proceeding is commenced against the Company or any Significant Restricted 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 Company or any Significant Restricted Subsidiary or for any substantial part of the property and assets of the Company or any Significant Restricted 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 Company or any Significant Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
- (8) the Company or any Significant Restricted 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 Company or any Significant Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any Significant Restricted 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 Significant Restricted Subsidiary in the ordinary course of business that shall result in the net assets of such Significant Restricted Subsidiary being transferred to or otherwise vested in the Company or any Restricted Subsidiary on a pro rata basis or on a basis more favorable to the Company);
- (9) any Subsidiary Guarantor or any JV Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or JV Subsidiary Guarantee of the Notes or, except as permitted by the Indenture, any Subsidiary Guarantee or any JV Subsidiary Guarantee of the Notes is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect, for so long as any 2015 Note remains outstanding;
- (10) any default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the Intercreditor Agreement and Security Documents or the Indenture, which adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or which adversely affects the condition or value of the Collateral, taken as a whole, in any material respect; or
- (11) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms its obligations under the Intercreditor Agreement or any Security Document or, other than in accordance with the Indenture, the Intercreditor Agreement and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Trustee ceases to have a security interest in the Collateral (subject to Permitted Liens), for so long as any Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees) remains outstanding.

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture with respect to any Notes, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Significant Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of all the Holders of Notes waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

- (1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived, and
- (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes, foreclose on the Collateral in accordance with the terms of the Security Documents and take such further action on behalf of the Holders with respect to the Collateral as the Trustee deems appropriate. See “– Security.”

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders of Notes not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders of Notes.

A Holder of Notes may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;

- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;
- (4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity referred to in (2) and (3) above; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

A Holder of Notes may not use the Indenture to prejudice the rights of another Holder of Notes or to obtain a preference or priority over another Holder of Notes.

However, such limitations do not apply to the right of any Holder of a Note to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Company must certify, on or before a date not more than 120 days after the end of each fiscal year ending after the Original Issue Date, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries' performance under the Indenture and that the Company has fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee of any default or defaults in the performance of any covenants or agreements under the Indenture. See “– Provision of Financial Statements and Reports.”

CONSOLIDATION, MERGER AND SALE OF ASSETS

The Company 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 Company shall be the continuing Person, or the Person (if other than it) formed by 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 Cayman Islands, Hong Kong, Bermuda or the British Virgin Islands and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture, the Notes and the Security Documents, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes, and the Indenture, the Notes and the Security Documents, as the case may be, shall remain in full force and effect;

- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a pro forma basis, the Company 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 Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a pro forma basis the Company or the Surviving Person, as the case may be, could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “– Certain Covenants – *Limitation on Indebtedness and Preferred Stock*”;
- (5) the Company delivers to the Trustee (x) an Officers’ Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;
- (6) each Subsidiary Guarantor and JV Subsidiary Guarantor, unless such Subsidiary Guarantor or JV Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under the caption “– Consolidation, Merger and Sale of Assets,” shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture; and
- (7) no Rating Decline shall have occurred.

No Subsidiary Guarantor or JV Subsidiary Guarantor will 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) to another Person (other than the Company or another Subsidiary Guarantor or, in the case of a JV Subsidiary Guarantor, other than to another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor), unless:

- (1) such Subsidiary Guarantor or JV Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction (or, in the case of a JV Subsidiary Guarantor, another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor);
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

- (3) immediately after giving effect to such transaction on a pro forma basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a pro forma basis, the Company could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “– *Limitation on Indebtedness and Preferred Stock*”;
- (5) the Company delivers to the Trustee (x) an Officers’ Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and
- (6) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to any sale or other disposition that complies with the “– Limitation on Asset Sales” covenant or to any Subsidiary Guarantor or JV Subsidiary Guarantor whose Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, is unconditionally released in accordance with the provisions described under “– The Subsidiary Guarantees and JV Subsidiary Guarantees – Release of the Subsidiary Guarantees and JV Subsidiary Guarantees.”

Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the property or assets of a Person.

For the avoidance of doubt, for purposes of this covenant, a sale of shares of Capital Stock of a Restricted Subsidiary which holds all or substantially all properties and assets of the Company to Independent Third Parties in an initial public offering and listing on a stock exchange of the shares of Capital Stock of such Restricted Subsidiary where such Restricted Subsidiary (i) remains a Restricted Subsidiary immediately after such sale and (ii) the Company, immediately after such sale, owns at least 30.0% of the Voting Stock of such Restricted Subsidiary shall not constitute a sale of substantially all properties and assets of the Company.

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor or JV Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor or JV Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor survives such consolidation or merger.

The foregoing provisions would not necessarily afford Holders protection in the event of highly-leveraged or other transactions involving the Company that may adversely affect Holders.

NO PAYMENTS FOR CONSENTS

The Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture, the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Notwithstanding the foregoing, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes in connection with an exchange or tender offer, the Company and any Restricted Subsidiary may exclude (i) Holders or beneficial owners of the Notes that are not institutional “accredited investors” as defined in Rule 501 under the Securities Act, and (ii) Holders or beneficial owners of the Notes in any jurisdiction where the inclusion of such Holders or beneficial owners would require the Company or any Restricted Subsidiary to comply with the registration requirements or other similar requirements under any securities laws of such jurisdiction, or the solicitation of such consent, waiver or amendment from, or the granting of such consent or waiver, or the approval of such amendment by, Holders or beneficial owners in such jurisdiction would be unlawful, in each case as determined by the Company in its sole discretion.

SATISFACTION AND DISCHARGE

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights of registration of transfer or exchange of the Notes, as expressly provided for in the Indenture) as to all outstanding Notes when:

- (1) either:
 - (a) all of the Notes theretofore authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has theretofore been deposited in trust by the Company and thereafter repaid to the Company) have been delivered to the Paying Agent for cancellation; or
 - (b) all Notes not theretofore delivered to the Paying Agent for cancellation have become due and payable pursuant to an optional redemption notice or otherwise or will become due and payable within one year, and the Issuer has irrevocably deposited or caused to be deposited with the Paying Agent funds, in cash in Renminbi, in an amount sufficient to pay and discharge the entire indebtedness on the Notes not theretofore delivered to the Paying Agent for cancellation, for principal of, premium, if any, and interest on the Notes to the date of deposit together with irrevocable written instructions from the Issuer directing the Trustee or the Paying Agent to apply such funds to the payment thereof at maturity or redemption, as the case may be;
- (2) the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor has paid all other sums payable under the Indenture;

- (3) such deposit will not result in a breach or violation of, or constitute a default under, any instruments to which the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor is a party or by which the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor is bound (other than the Indenture, the Notes or any Security Document).

In addition, the Company must deliver to the Trustee an Officers' Certificate stating that all conditions precedent to satisfaction and discharge have been satisfied.

AMENDMENTS AND WAIVER

Amendments Without Consent of Holders

The Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any), the Intercreditor Agreement or any Security Document may be amended, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes, the Intercreditor Agreement or any Security Document;
- (2) provide for the assumption of the Company's or any Subsidiary Guarantor's obligations pursuant to the provision described under "Consolidation, Merger and Sale of Assets";
- (3) comply with the provisions described under "Consolidation, Merger and Sale of Assets";
- (4) evidence and provide for the acceptance of appointment by a successor Trustee;
- (5) add or release any Subsidiary Guarantor or any JV Subsidiary Guarantor, as the case may be, as provided or permitted by the terms of the Indenture;
- (6) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (7) add or release any Subsidiary Guarantor Pledgor as provided or permitted by the terms of the Indenture;
- (8) add additional Collateral to secure the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee;
- (9) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (10) effect any changes to the Indenture in a manner necessary to comply with the procedures of Euroclear or Clearstream;

- (11) permit Permitted Pari Passu Secured Indebtedness (including, without limitation, permitting the Trustee to enter into any amendments to the Intercreditor Agreement, the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness, in accordance with the Indenture);
- (12) make any other change that does not materially and adversely affect the rights of any Holder of Notes; and
- (13) conform the text of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any) or the Intercreditor Agreement to any provision of this “Description of the Notes” to the extent that such provision in this “Description of the Notes” was intended to be a verbatim recitation of a provision of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any) or the Intercreditor Agreement.

Amendments With Consent of Holders

Except as provided below, amendments of the Indenture, the Intercreditor Agreement and the Security Documents may be made by the Company, the Subsidiary Guarantors and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the holders of a majority in principal amount of the outstanding Notes may waive future compliance by the Company with any provision of the Indenture or the Notes; *provided* that, no such modification, amendment or waiver may, without the consent of each Holder of the Notes affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the currency of payment of principal of, or premium, if any, or interest on, any Note;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;
- (5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (7) release any Subsidiary Guarantor or any JV Subsidiary Guarantor from its Subsidiary Guarantee or its JV Subsidiary Guarantee, as the case may be, except as provided in the Indenture;
- (8) release any Collateral, except as provided in the Indenture and the Security Documents;
- (9) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;

- (10) amend, change or modify any Subsidiary Guarantee or any JV Subsidiary Guarantee in a manner that adversely affects the Holders, except as provided in the Indenture;
- (11) amend, change or modify any provision of any Security Document, or any provision of the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture;
- (12) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or, change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale;
- (13) change the redemption date or the redemption price of the Notes from that stated under the caption “– Optional Redemption” or “– Redemption for Taxation Reasons”;
- (14) amend, change or modify the obligation of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor to pay Additional Amounts except for the release of any Subsidiary Guarantee, any JV Subsidiary Guarantee or any related Collateral pursuant to the terms of the Indenture; and
- (15) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or any Subsidiary Guarantee or any JV Subsidiary Guarantee in a manner which adversely affects the Holders except for the release of any Subsidiary Guarantee, any JV Subsidiary Guarantee or any related Collateral pursuant to the terms of the Indenture.

UNCLAIMED MONEY

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

NO PERSONAL LIABILITY OF INCORPORATORS, STOCKHOLDERS, OFFICERS, DIRECTORS OR EMPLOYEES

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company, any of the Subsidiary Guarantors or any of the JV Subsidiary Guarantors in the Indenture, or in any of the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company, any of the Subsidiary Guarantors or JV Subsidiary Guarantors or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

CURRENCY FALLBACK

Notwithstanding all other provisions, if by reason of Inconvertibility, Non-transferability or Illiquidity, the Company or the Subsidiary Guarantors are not able, or it would be impracticable for it, to satisfy payments of principal or interest (in whole or in part) in respect of Notes when due in Renminbi in Hong Kong, the Company or the Subsidiary Guarantors may, on giving not less than 10 or more than 30 days' irrevocable notice to the Holders prior to the due date for payment, settle any such payment (in whole or in part) in U.S. dollars on the due date at the Renminbi amount converted into U.S. dollars using the Spot Rate for the relevant Rate Calculation Date ("U.S. Dollar Equivalent") of any such Renminbi denominated amount.

In such event, payments of the U.S. Dollar Equivalent of the relevant principal or interest in respect of the Notes shall be made by a U.S. dollar denominated check drawn on a bank in New York City and mailed to the Holder (or to the first named of joint Holders) of the Notes at its address appearing in the Note register, or, upon application by the Holder to the specified office of the Registrar or any other Agent before the Record Date, by transfer to a U.S. dollar denominated account with a bank in New York City.

All notifications, determinations, certificates, calculations and quotations given, expressed, made or obtained for the purposes of this provision by the Principal Paying Agent, will (in the absence of gross negligence, willful default, fraud or manifest error) be binding the Company or the Subsidiary Guarantors, the Trustee, the other Agents and all Holders.

CURRENCY INDEMNITY

Subject to the provisions under "Currency Fallback" above, the Renminbi is the sole currency of account and payment for all sums payable by the Company or the Subsidiary Guarantors under or in connection with the Notes, including damages. Any amount received or recovered in a currency other than Renminbi, except in the circumstances described in "Currency Fallback" (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Company or the Subsidiary Guarantors or otherwise) by any Holder in respect of any sum expressed to be due to it from the Company or the Subsidiary Guarantors shall only constitute a discharge to the Company or the Subsidiary Guarantors to the extent of the Renminbi amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that Renminbi amount is less than the Renminbi amount expressed to be due to the recipient under any Note, the Company or the Subsidiary Guarantors shall indemnify it against any loss sustained by it as a result. In any event, the Company or the Subsidiary Guarantors shall indemnify the recipient against the cost of making any such purchase. For the purposes of this provision, it will be sufficient for the Holder to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Company's or the Subsidiary Guarantors' other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Holder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any other judgment or order.

CONCERNING THE TRUSTEE, REGISTRAR AND THE PAYING AGENT

Citicorp International Limited is to be appointed as Trustee and Citibank, N.A., London Branch is to be appointed as registrar and paying agent (the "Paying Agent") with regard to the Notes. Except during the continuance of a Default, the Trustee will not be liable, except for the performance of such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions with the Company and its Affiliates; *provided, however*, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

None of the Trustee, the Paying Agent, the Registrar, the Shared Security Agent, or the security agent nor any of its officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents or the Intercreditor Agreement, for the creation, perfection, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so, except as a result of the Agent's own fraud, gross negligence or willful misconduct.

If the Company maintains a paying agent with respect to the Notes in a member state of the European Union, such paying agent will be located in a member state of the European Union that is not obligated to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive amending, supplementing or replacing such directive, or any law implementing or complying with, or introduced in order to conform to, such directive.

Citibank, N.A. will initially act as the Shared Security Agent under the Security Documents in respect of the Security over the Collateral. The Shared Security Agent, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Indenture and the Security Documents. Under certain circumstances, the Shared Security Agent may have obligations under the Security Documents or the Intercreditor Agreement that are in conflict with the interests of the Holders and the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any). Neither the Trustee nor the Shared Security Agent will be under any obligation to exercise any rights or powers conferred under the Indenture or any of the Security Documents for the benefit of the Holders or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any), unless such Holders and/or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any) have offered to the Trustee and/or the Shared Security Agent indemnity and/or security satisfactory to it against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Trustee and the Shared Security Agent, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Security Documents and has not relied on and will not at any time rely on the Trustee or the Shared Security Agent in respect of such risks.

Notwithstanding anything else herein contained or in the Indenture or any Security Document, the Trustee, the Shared Security Agent, the Registrar and the Paying Agent may refrain without liability from doing anything that would or might in its reasonable opinion after consultation with its counsel, be contrary to any law of any state or jurisdiction (including but not limited to the United States of America or any jurisdiction forming a part of it and England & Wales) or any directive or regulation of any agency of any such state or jurisdiction and may without liability do anything which is, in its reasonable opinion after consultation with its counsel, necessary to comply with any such law, directive or regulation.

BOOK-ENTRY; DELIVERY AND FORM

The Notes are represented by one or more global notes in registered form without interest coupons attached. On the Original Issue Date, an initial global note was deposited with a common depositary and registered in the name of the common depositary or its nominee for the accounts of Euroclear and Clearstream. Any Additional Notes (including the Further Notes) will be represented by additional global notes in registered form without interest coupons attached (the “Additional Global Notes” and, together with the initial global note, the “Global Notes”).

GLOBAL NOTE

Ownership of beneficial interests in the Global Note (the “book-entry interests”) will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under “– Individual Definitive Notes,” the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant’s account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depositary for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of Global Note for all purposes under the Indenture and “holders” of book-entry interests will not be considered the owners or “Holders” of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Trustee or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

PAYMENTS ON THE GLOBAL NOTE

Payments of any amounts owing in respect of the Global Note (including principal, premium, interest and Additional Amounts) will be made to the principal paying agent in U.S. dollars. The principal paying agent will, in turn, make such payments to the common depositary for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. The Company will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “– Additional Amounts.”

Under the terms of the Indenture, the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) and the Trustee will treat the registered holder of the Global Note (i.e., the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Trustee or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

REDEMPTION OF GLOBAL NOTE

In the event any Global Note, or any portion thereof, is redeemed, the common depositary will distribute the amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depositary, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided, however*, that no book-entry interest of CNY1,000,000 principal amount, or less, as the case may be, will be redeemed in part.

ACTION BY OWNERS OF BOOK-ENTRY INTERESTS

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the book-entry interests in the Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Note. If there is an Event of Default under the Notes, however, each of Euroclear and Clearstream reserves the right to exchange the Global Note for individual definitive notes in certificated form, and to distribute such individual definitive notes to their participants.

TRANSFERS

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Note will be subject to the restrictions on transfer discussed under "Transfer Restrictions."

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

GLOBAL CLEARANCE AND SETTLEMENT UNDER THE BOOK-ENTRY SYSTEM

Book-entry interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

INFORMATION CONCERNING EUROCLEAR AND CLEARSTREAM

We understand as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Trustee or any of their respective agents will have responsibility for the performance of Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to book-entry interests.

INDIVIDUAL DEFINITIVE NOTES

If (1) the common depository or any successor to the common depository is at any time unwilling or unable to continue as a depository for the reasons described in the Indenture and a successor depository is not appointed by the Company within 90 days (2) either Euroclear or Clearstream, or a successor 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 to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with “– Events of Default” and the Company has received a written request from a Holder, the Company will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depository or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depository for the exchange of interests in the Global Note for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the registrar in sufficient quantities and authenticated by the registrar for delivery to Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the registrar, through the relevant clearing system, with written instruction and other information required by the Company and the registrar to complete, execute and deliver such individual definitive notes. In all cases, individual definitive notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

NOTICES

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the United States mails (if intended for the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor or the Trustee) addressed to the Company, such Subsidiary Guarantor or JV Subsidiary Guarantor or the Trustee, as the case may be, at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of Euroclear or Clearstream, as the case may be. Any such notice shall be deemed to have been delivered on the day such notice is delivered to Euroclear or Clearstream, as the case may be, or if by mail, when so sent or deposited.

CONSENT TO JURISDICTION; SERVICE OF PROCESS

The Company and each of the Subsidiary Guarantors have irrevocably (1) submitted to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, any JV Subsidiary Guarantee, the Indenture or any transaction contemplated thereby; and (2) designated and appointed Cogency Global Inc. for receipt of service of process in any such suit, action or proceeding.

GOVERNING LAW

Each of the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any) and the Indenture provides that such instrument is governed by, and construed in accordance with, the laws of the State of New York.

DEFINITIONS

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this "Description of the Notes" for which no definition is provided.

"2015 Notes" means the 8.375% Senior Notes due 2022 issued by the Company. "2017 Notes" means the 4.75% Senior Notes due 2022 issued by the Company.

"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.

“Applicable Premium” means with respect to a Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of the redemption price of such Note on March 15, 2020, (such redemption price being set forth in the paragraph appearing above under the caption “– Optional Redemption”), plus (ii) all required remaining scheduled interest payments due on such Note through March 15, 2020 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to 2.50% per annum, over (B) the principal amount of such Note on such redemption date.

“Asset Acquisition” means (1) an investment by the Company or any of its Restricted Subsidiaries in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any of its Restricted Subsidiaries; or (2) an acquisition by the Company or any of its Restricted Subsidiaries of the property and assets of any Person other than the Company or any of its Restricted Subsidiaries that constitute substantially all of a division or line of business of such Person.

“Asset Disposition” means the sale or other disposition by the Company or any of its Restricted Subsidiaries (other than to the Company 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 Company or any of its Restricted Subsidiaries.

“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 or issuance of Capital Stock of a Subsidiary) in one transaction or a series of related transactions by the Company or any of its Restricted Subsidiaries to any Person; *provided* that “Asset Sale” shall not include:

- (1) sales or other dispositions of inventory, receivables and other current assets (including, without limitation, properties under development for sale and completed properties for sale) in the ordinary course of business;
- (2) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the “– *Limitation on Restricted Payments*” covenant;
- (3) 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;

- (4) 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 Company or its Restricted Subsidiaries;
- (5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;
- (6) a transaction covered by the covenant under the caption “– Consolidation, Merger and Sale of Assets”; and
- (7) any sale, transfer or other disposition to the Company or a Restricted Subsidiary, including the sale or issuance by the Company or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary to the Company or any Restricted Subsidiary.

“Attributable Indebtedness” means, in respect of a Sale and Leaseback Transaction, 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.

“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 Company or any Restricted Subsidiary that is (i) secured by cash deposits, bank accounts or other assets of the Company or a Restricted Subsidiary and/or (ii) Guaranteed by a Guarantee, letter of credit or similar instruments from or arranged by the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to effect exchange of currencies or remit money onshore or offshore.

“Board of Directors” means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company 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 a day (other than a Saturday, Sunday or public holiday) on which commercial banks are generally open (a) for business and settlement of Renminbi payments in Hong Kong, (b) in the city in which the specified office of the relevant Paying Agent is located and (c) in the case of the surrender of a Certificated Note, in the place where the Certificated Note is surrendered.

“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.

“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 Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries, taken as a whole, to any “person” (within the meaning of Section 13(d) of the Exchange Act), other than one or more Permitted Holders;
- (2) the Company consolidates with, or merges with or into, any Person (other than one or more Permitted Holders), or any Person consolidates with, or merges with or into, the Company, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Company 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 Company 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;
- (3) the Permitted Holders are the beneficial owners of less than 35% of the total voting power of the Voting Stock of the Company;
- (4) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;
- (5) individuals who on the Original Issue Date constituted the board of directors of the Company, together with any new directors whose nomination for election by the shareholders of the Company was approved by a vote of at least two-thirds of the directors then still in office who were either directors on the Original Issue Date or whose nomination was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or
- (6) the adoption of a plan relating to the liquidation or dissolution of the Company.

For the avoidance of doubt, for purposes of this definition, a sale of shares of Capital Stock of a Restricted Subsidiary which holds all or substantially all properties and assets of the Company, a Subsidiary Guarantor or a JV Subsidiary Guarantor to Independent Third Parties in an initial public offering and listing on a stock exchange of the shares of Capital Stock of such Restricted Subsidiary where such Restricted Subsidiary (i) remains a Restricted Subsidiary immediately after such sale and (ii) the Company, the Subsidiary Guarantor or the JV Subsidiary Guarantor, as the case may be, immediately after such sale, directly or indirectly, owns at least 30.0% of the Voting Stock of such Restricted Subsidiary shall not constitute a sale of substantially all properties and assets of the Company, the Subsidiary Guarantor or the JV Subsidiary Guarantor.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and, *provided* that the Notes are rated by at least one Rating Agency, a Rating Decline. “Clearstream” means Clearstream Banking, S.A.

“Collateral” means all collateral securing, or purported to be securing, directly or indirectly, the Notes or any Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of the Capital Stock of the initial Subsidiary Guarantors, other than the Capital Stock of Shimao Property Holdings (BVI) Limited and Peak Castle Assets Limited.

“Commodity Hedging Agreement” means any spot, forward or option commodity price protection agreements or other similar agreement or arrangement designed to protect against 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 Indenture, and include, 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 Company and its Restricted Subsidiaries’ proportionate interest in the total consolidated assets of that Restricted Subsidiary and its Restricted 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 Company and its Restricted Subsidiaries (which the Company shall use its reasonably best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements).

“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 not included in the calculation of Consolidated EBITDA), 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),

all as determined on a consolidated basis for the Company 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 Company or any of its Restricted Subsidiaries 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 Company or any Restricted Subsidiary held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company’s Capital Stock (other than Disqualified Stock) or paid to the Company 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 Company 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 Company and its Restricted Subsidiaries, without duplication, (1) interest expense attributable to Capitalized Lease Obligations and imputed interest expense with respect to Attributable Indebtedness, (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 the Company or any Restricted Subsidiary (other than Pre-Registration Mortgage Guarantees), only to the extent such interest is actually paid by the Company 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 and, for the avoidance of doubt, distributions incurred, accrued or payments on any Perpetual Bond Obligation shall not be included in the calculation of Consolidated Interest Expense.

“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 to the extent of the amount of dividends or similar distributions actually paid in cash to the specified Person or a Restricted Subsidiary of the Person during such period;
- (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 Company or any of its Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of its Restricted Subsidiaries;
- (3) the cumulative effect of a change in accounting principles;
- (4) any net after tax gains realized on the sale or other disposition of (a) any property or assets of the Company or any Restricted Subsidiary or any other Person (including pursuant to a Sale and Leaseback arrangement) which is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or other Restricted Subsidiaries);
- (5) any translation gains and losses due solely to fluctuations in currency values and related tax effects; and
- (6) any net after-tax extraordinary or non-recurring gains or losses,

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 Company 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 the 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 Company 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 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 fiscal quarter, semi-annual or annual consolidated balance sheet of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, 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 Company or any of its Restricted Subsidiaries, each item to be determined in conformity with GAAP.

“Contractor Guarantees” means any Guarantee by the Company or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Company or such Restricted Subsidiary in connection with the development, construction or improvement of real or personal property or equipment to be used by the Company 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.

“Credit Facilities” means one or more of the facilities or arrangements with one or more banks or other lenders or institutions providing for revolving credit loans, term loans, receivables or financings (including without limitation through the sale of receivables or assets to such institutions or to special purpose entities formed to borrow from such institutions against such receivables or assets or the creation of any Liens in respect of such receivables or assets in favor of such institutions), letters of credit or other Indebtedness, in each case, including all agreements, instruments and documents executed and delivered pursuant to or in connection with any of the foregoing, including but not limited to any notes and letters of credit issued pursuant thereto and any guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other guarantees, pledge agreements, security agreements and collateral documents, in each case as the same may be amended, supplemented, waived or otherwise modified from time to time, or refunded refinanced, restructured, replaced, renewed, repaid, increased or extended from time to time (whether in whole or in part, whether with the original banks, lenders or institutions or other banks, lenders or institutions or otherwise, and whether provided under any original Credit Facility or one or more other credit agreements, indentures, financing agreements or other Credit Facilities or otherwise). Without limiting the generality of the foregoing, the term “Credit Facility” shall include any agreement (1) changing the maturity of any Indebtedness Incurred thereunder or contemplated thereby, (2) adding Subsidiaries as additional borrowers or guarantors thereunder, (3) increasing the amount of Indebtedness Incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

“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 Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above. or Indebtedness having a scheduled maturity prior to the Stated Maturity of the Notes; *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 Notes 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 the “– Limitation on Asset Sales” and “– Repurchase of Notes Upon a Change of Control Triggering Event” covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company’s repurchase of such Notes as are required to be repurchased pursuant to the “– Limitation on Asset Sales” and “– Repurchase of Notes Upon a Change of Control Triggering Event” covenants.

“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 PRC Restricted Subsidiary from a bank that are secured by a pledge of deposits made by another PRC Restricted Subsidiary to the lending bank as security for such borrowings, *provided* that such borrowings are not reflected on the consolidated balance sheet of the Company.

“Equity Offering” means (i) any bona fide underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date; (ii) any underwritten secondary public offering or secondary private placement of Common Stock of the Company beneficially owned by a Permitted Holder, after the Original Issue Date, to the extent that a Permitted Holder or a company controlled by a Permitted Holder concurrently with such public offering or private placement purchases in cash an equal amount of Common Stock from the Company at the same price as the public offering or private placing price, in each case to a person other than a Restricted Subsidiary or a Permitted Holder; *provided* that any offering or placing referred to in (A) clause (i) or (B) clause (ii) or (C) any combination of clauses (i) and (ii) result in the aggregate gross cash proceeds received by the Company being no less than US\$20.0 million (or the Dollar Equivalent thereof).

“Euroclear” means Euroclear Bank SA/NV.

“Exempted Subsidiary” means any Restricted Subsidiary organized in any jurisdiction other than the PRC that is prohibited by applicable law or regulation to provide a Subsidiary Guarantee or a JV Subsidiary Guarantee or create any Lien over its Capital Stock to secure any of the secured obligations subject to the Intercreditor Agreement; *provided* that (x) the Company shall have failed, upon using commercially reasonable efforts, to obtain any required governmental or regulatory approval or registration with respect to such Subsidiary Guarantee, JV Subsidiary Guarantee or Lien over its Capital Stock, to the extent that such approval or registration is available under any applicable law or regulation and (y) such Restricted Subsidiary shall cease to be an Exempted Subsidiary as soon as practicable after such prohibition ceases to be in force or apply to such Restricted Subsidiary or upon the Company having obtained such applicable approval or registration.

“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, except in case of a determination of Fair Market Value of total assets for the purposes of determining a JV Entitlement Amount, in which case such price shall be determined by an accounting, appraisal, or investment banking firm of international standing appointed by the Company.

“Fitch” means Fitch Ratings, Inc. and its affiliates.

“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 quarter periods prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile in a timely manner) are available and have been provided to the Trustee (the “Four Fiscal-Quarter Period”) to (2) the aggregate Consolidated Fixed Charges during such Four Fiscal-Quarter Period. In making the foregoing calculation:

- (a) 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 Fiscal-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 Fiscal-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 Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay such Indebtedness or Preferred Stock;
- (b) 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;
- (c) 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;
- (d) 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
- (e) 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 with or into the Company 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 (d) or (e) of this sentence 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 quarter periods 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. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

“Governmental Authority” means any de facto or de jure government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of Hong Kong.

“Group Financial Institution” means any Restricted Subsidiary the primary business of which is the financial, trust, insurance, securities, trading, internet, investment and/or services businesses.

“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 Hedging Agreement, Currency Agreement or Interest Rate Agreement.

“Holder” means the Person in whose name a Note is registered in the Note register.

“Illiquidity” means the general Renminbi exchange market in Hong Kong becomes illiquid as a result of which the Company or the Subsidiary Guarantors cannot obtain sufficient Renminbi in order to satisfy its obligation to pay interest and principal (in whole or in part) in respect of the Notes.

“Inconvertibility” means the occurrence of any event that makes it impossible for the Company or the Subsidiary Guarantors to convert any amount due in respect of the Notes in the general Renminbi exchange market in Hong Kong, other than where such impossibility is due solely to the failure of the Company or the Subsidiary Guarantors to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Original Issue Date and it is impossible for the Company or the Subsidiary Guarantors, due to an event beyond its control, to comply with such law, rule or regulation).

“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 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 price plus accrued dividends.

Notwithstanding the foregoing, Indebtedness shall not include (1) any capital commitments, deferred payment obligation, 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) or (2) any Entrusted Loan or (3) any Perpetual Bond Obligation; *provided* that such Indebtedness is not reflected as borrowings on the consolidated balance sheet of the Company (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected 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

- (1) that 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) that 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,
- (3) that the amount of Indebtedness with respect to any Hedging Obligation shall be (i) zero if Incurred pursuant to paragraph (2)(f) under the “*Limitation on Indebtedness and Preferred Stock*” covenant or (ii) equal to the net amount payable by such Person if the Commodity Hedging Agreement, Currency Hedging Agreement or Interest Rate Agreement giving rise to such Hedging Obligation were terminated at that time due to default by such Person if not Incurred pursuant to such paragraph, and
- (4) that the contingent obligations arising from letters of credit, bankers’ acceptances or other similar instruments of a Restricted Subsidiary to secure Indebtedness of another Restricted Subsidiary shall not be deemed to be Indebtedness” so long as such contingent obligations are used to secure the payment of Indebtedness of another Restricted Subsidiary.

“Independent Third Party” means any Person that is not an Affiliate of the Company.
“Intercreditor Agreement” has the meaning set forth under “– Security.”

“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, convert a fixed rate of interest into a floating rate of interest, convert a floating rate of interest into a different floating rate of interest, or lower interest currently paid on Indebtedness of any Person.

“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; and
- (4) any Guarantee of any obligation of another Person.

For the purposes of the provisions of the “*Designation of Restricted and Unrestricted Subsidiaries*” and “*Limitation on Restricted Payments*” covenants, (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Fair Market Value of the Company’s proportional interest in the assets (net of the Company’s proportional interest in the liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation, and (2) 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 Grade” means a rating of “AAA,” “AA,” “A” or “BBB,” as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns or a rating of “Aaa,” or “Aa,” “A” or “Baa,” as modified by a “1,” “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s, or any of its successors or assigns, or a rating of “AAA,” “AA,” “A,” “BBB,” as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by Fitch or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P, Moody’s or Fitch or two or three of them, as the case may be.

“Investment Property” means (1) any property in the PRC that is owned and held by any Restricted Subsidiary for long-term rental yields or for capital appreciation or both, or any hotel in the PRC owned by the Company or any Restricted Subsidiary from which the Company or any Restricted Subsidiary derives or expects to derive operating income and/or (2) any asset or property located outside the PRC.

“January 2018 Notes” means the 5.20% Senior Notes due 2025 issued by the Company.

“JV Entitlement Amount” means, with respect to any JV Subsidiary Guarantor and its Subsidiaries, an amount that is equal to the product of (i) the Fair Market Value of the total assets of such JV Subsidiary Guarantor and its Subsidiaries, on a consolidated basis (without deducting any Indebtedness or other liabilities of such JV Subsidiary Guarantor and its Subsidiaries) as of the date of the last fiscal year end of the Company; and (ii) a percentage equal to the direct equity ownership percentage of the Company and/or its Restricted Subsidiaries in the Capital Stock of such JV Subsidiary Guarantor and its Subsidiaries.

“JV Subsidiary Guarantee” has the meaning set forth under the caption “– The Subsidiary Guarantees and JV Subsidiary Guarantees.”

“JV Subsidiary Guarantor” means a Restricted Subsidiary that executes a JV Subsidiary Guarantee.

“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).

“Measurement Date” means November 29, 2006.

“Minority Interest Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company 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 of such Person at the time the Company 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.

“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 Company or a Restricted Subsidiary, and such Minority Joint Venture’s Subsidiaries.

“Moody’s” means Moody’s Investors Service, Inc. and its affiliates.

“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 bankers) 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 Company 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 Company 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
 - (e) with respect to any issuance or sale of 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.

“Non-Guarantor Subsidiary” means any Restricted Subsidiary not providing a Subsidiary Guarantee or JV Subsidiary Guarantee.

“Non-transferability” means the occurrence of any event that makes it impossible for the Company or the Subsidiary Guarantors to deliver Renminbi between accounts inside Hong Kong or from an account inside Hong Kong to an account outside Hong Kong, other than where such impossibility is due solely to the failure the Company or the Subsidiary Guarantors to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Original Issue Date and it is impossible for the Company or the Subsidiary Guarantors, due to an event beyond its control, to comply with such law, rule or regulation).

“Offer to Purchase” means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

- (1) the covenant pursuant to which the offer is being made and that all Notes 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 Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note 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 Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “Option of the Holder to Elect Purchase” on the reverse side of the Note completed, to the Paying 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 Paying 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 Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and

- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of CNY1,000,000 or integral multiples of CNY10,000.

On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of CNY1,000,000 or integral multiples of CNY10,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company 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 Company 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 Notes pursuant to the Offer to Purchase.

“Officer” means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor or JV Subsidiary Guarantor, one of the directors or officers of such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be.

“Officers' Certificate” means a certificate signed by two Officers; *provided, however*, with respect to the Officers' Certificate required to be delivered by any Subsidiary Guarantor under the Indenture, Officers' Certificate means a certificate signed by one Officer if there is only one Officer in such Subsidiary Guarantor at the time such certificate is required to be delivered.

“Opinion of Counsel” means a written opinion from legal counsel who is reasonably acceptable to the Trustee.

“Original Issue Date” means March 15, 2018, the date on which the Notes were originally issued under the Indenture.

“Pari Passu Guarantee” means a guarantee by the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes), any Subsidiary Guarantor or any JV Subsidiary Guarantor; *provided* that (1) the Company, such Subsidiary Guarantor or such JV Subsidiary Guarantor is permitted to Incur such Indebtedness under the covenant under the caption “– *Limitation on Indebtedness and Preferred Stock*” and (2) such

guarantee ranks *pari passu* with any outstanding Subsidiary Guarantee of such Subsidiary Guarantor or with any outstanding JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be.

“Payment Default” means (1) any default in the payment of interest on any Note when the same becomes due and payable, (2) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (3) the failure by the Company to make or consummate a Change of Control Offer in the manner described under the caption “– Repurchase of Notes Upon a Change of Control Triggering Event,” or an Offer to Purchase in the manner described under the caption “– *Limitation on Asset Sales*” or (4) any Event of Default specified in clause (5) of the definition of Events of Default.

“Permitted Holders” means any or all of the following:

- (1) the W.M. Hui Family Trust, any trustee for the W.M. Hui Family Trust, or Mr. Hui Wing Mau (whether directly or indirectly);
- (2) any Affiliate (other than an Affiliate as defined in clause (2) or (3) of the definition of Affiliate) of the Person specified in clause (1); and
- (3) 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 Persons specified in clauses (1) and (2).

“Permitted Investment” means:

- (1) any Investment in the Company or a Restricted Subsidiary or a Person which will, upon the making of such Investment, become a Restricted Subsidiary or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary;
- (2) Temporary Cash Investment;
- (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, *provided* that the capital contribution in such other Unrestricted Subsidiary when made constituted a Restricted Payment under the “*Limitation on Restricted Payments*” covenant;
- (6) any Investment pursuant to a Hedging Obligation entered into in the ordinary course of business and designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation;

- (7) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (8) any securities or other Investments received as consideration in, or retained in connection with, sales or other dispositions of property or assets, including Asset Dispositions made in compliance with the covenant described under “– *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 the covenant described under “– *Limitation on Liens*”;
- (10) any Investment pursuant to Pre-Registration Mortgage Guarantees or Contractor Guarantees by the Company or any Restricted Subsidiary otherwise permitted to be Incurred under the Indenture;
- (11) 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;
- (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 Company’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 Company or any of its Restricted Subsidiaries and prepayments made in connection with the acquisition of real property or land use rights by the Company or any of its Restricted Subsidiaries, in each case in the ordinary course of business;
- (15) 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 customers;
- (16) 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 Company or any Restricted Subsidiary in any Person (other than a Restricted Subsidiary), *provided that*:
 - (i) with respect to all such Investment made under this clause (16) since the Measurement Date in a Person of which less than 30% of the voting power of the outstanding Voting Stock is owned directly or indirectly, by the Company or a Restricted Subsidiary, at the time of such Investment, the aggregate of all such Investments shall not exceed in aggregate an amount equal to 35% 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 (16) since the Measurement 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 Company 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 Company or a Restricted Subsidiary after the Measurement Date under this clause of an obligation of any such Person, or
 - (C) to the extent that an Investment made after the Measurement Date under this clause 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 Company or a Restricted Subsidiary after the Measurement Date in any such Person pursuant to this clause (16),
- (ii) none of the other shareholders or partners in such Person in which such Investment was made pursuant to this clause (16) is a Person described in clauses (x) or (y) of the first paragraph of the covenant under the caption “– Limitation on Transactions with Shareholders and Affiliates” (other than by reason of such shareholder or partner being an officer or director of the Company or a Restricted Subsidiary or by reason of being a Restricted Subsidiary); and
 - (iii) no Default has occurred and is continuing or would occur as a result of such Investment; and

For the avoidance of doubt, the value of each Investment made pursuant to this clause (16) shall

- (17) be valued at the time such Investment is made;
- (18) any Investment deemed to have been made by the Company or any Restricted Subsidiary in the Restructuring Group in connection with the Hotel Restructuring upon designation of the Subsidiaries in the Restricted Group as Unrestricted Subsidiaries, *provided* that (A) the Board of Directors of the Company has determined in good faith that the designation of the Subsidiaries in the Hotel Group as Unrestricted Subsidiaries is necessary to obtain approval from a Qualifying Exchange for the Restricted Restructuring, (B) at the time of such designation, the members of the Restructuring Group remain Subsidiaries of the Company; and
- (19) Guarantees permitted under clause (2)(v) of the covenant entitled “– *Limitation on Indebtedness and Preferred Stock.*”

“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 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 Company 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 Company 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 Company 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 Company or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Company 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 (f) of the second paragraph of the covenant under the caption “–*Limitation on Indebtedness and Preferred Stock*”;

- (11) Liens existing on the Original Issue Date;
- (12) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (e) of the second paragraph of the covenant described under the caption entitled “– *Limitation on Indebtedness and Preferred Stock*”; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (13) Liens under the Security Documents;
- (14) Liens securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under “– *Security – Permitted Pari Passu Secured Indebtedness*”;
- (15) any interest or title of a lessor in the property subject to any operating lease;
- (16) Liens securing Indebtedness of the Company or any Restricted Subsidiary under any Pre-Registration Mortgage Guarantee which is permitted to be Incurred under clause (g) of the second paragraph of the covenant under the caption “– *Limitation on Indebtedness and Preferred Stock*”;
- (17) 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 Company or any Restricted Subsidiary;
- (18) 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 Incurred of the type described under clause (2)(h) of the covenant under the caption entitled “– *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, 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 such cost 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 or improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such acquisition, completion or improvement costs 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 Company or, if any such property or assets have been acquired since the date of such financial statements (which may be internal consolidated statements), the cost of such property or assets) subject to Liens incurred pursuant to this clause (18) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;

- (19) 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 Company or any Restricted Subsidiary;
- (20) 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 Company or any Restricted Subsidiary;
- (21) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights or personal property (including, without limitation, Capital Stock) by the Company or any of its Restricted Subsidiaries (including, without limitation, by way of acquisition of Capital Stock of a Person) in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (22) Liens on Investment Properties securing Indebtedness of the Company or any Restricted Subsidiary incorporated under the laws of the PRC permitted to be Incurred under clause (2)(q) of the covenant described under “– Certain Covenants – *Limitation on Indebtedness and Preferred Stock*”;
- (23) Liens Incurred on deposits or bank accounts made to secure Bank Deposit Secured Indebtedness of the type described under paragraph (r) of the second paragraph of the “– Certain Covenants – *Limitation on Indebtedness and Preferred Stock*” covenant;
- (24) Liens on the Capital Stock of a PRC Restricted Subsidiary granted by the Company or any PRC Restricted Subsidiary in favor of any Trust Company Investor in respect of, and to secure, the Indebtedness of the type described under paragraph (s) of the second paragraph of the “– Certain Covenants – *Limitation on Indebtedness and Preferred Stock*” covenant;
- (25) Liens on current assets securing Indebtedness permitted to be Incurred under clause (2)(o) of the “– *Limitation on Indebtedness and Preferred Stock*” covenant;
- (26) Liens to secure Entrusted Loans;
- (27) Liens securing Indebtedness permitted to be Incurred under clause (2)(p) of the covenant entitled “– *Limitation on Indebtedness and Preferred Stock*” covenant;
- (28) Liens on the Capital Stock of the Person that is to be acquired under the relevant Staged Acquisition Agreement securing Indebtedness permitted to be Incurred under clause (2)(t) of the “– *Limitation on Indebtedness and Preferred Stock*” covenant;
- (29) Liens on the Capital Stock of the Person that is to be acquired under the relevant Minority Staged Acquisition Agreement securing Indebtedness permitted to be Incurred under clause (2)(u) of the “– *Limitation on Indebtedness and Preferred Stock*” covenant;
- (30) Liens securing Indebtedness Incurred under clause (2)(v) of the “– *Limitation on Indebtedness and Preferred Stock*” covenant; and

- (31) Liens on assets of a Non-Guarantor Subsidiary securing any Permitted Subsidiary Indebtedness of any Non-Guarantor Subsidiary permitted to be Incurred under the proviso in paragraph (1) of the covenant described under “– *Limitation on Indebtedness and Preferred Stock.*”

“Permitted Pari Passu Secured Indebtedness” has the meaning set forth under “– *Security – Permitted Pari Passu Secured Indebtedness.*”

“Permitted Subsidiary Indebtedness” means Indebtedness of, and all Preferred Stock issued by, the Non-Guarantor Subsidiaries, taken as a whole; *provided* that, on the date of the Incurrence of such Indebtedness and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness (excluding the amount of Public Indebtedness and any Indebtedness of any Non-Guarantor Subsidiary permitted under clauses (2)(a), (b), (d), (f) and (g) of the covenant described under “– *Certain Covenants – Limitation on Indebtedness and Preferred Stock*”) does not exceed an amount equal to 30% of Total Assets.

“Perpetual Bond Obligation” means perpetual securities that are accounted for as equity in accordance with the relevant generally accepted accounting principles.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“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 November 7, 2016) 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 most recently amended on February 19, 2014), 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 Company or any Restricted Subsidiary.

“Pre-Registration Mortgage Guarantee” means any Indebtedness of the Company 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 Company 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 term 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 Notes) to institutional investors.

“Qualifying Exchange” means either (1) the New York Stock Exchange, the London Stock Exchange, The Stock Exchange of Hong Kong Limited, the Nasdaq Stock Market, Singapore Exchange Securities Trading Limited, The Shanghai Stock Exchange or the Shenzhen Stock Exchange or (2) a national securities exchange (as such term is defined in Section 6 of the Exchange Act) or a designated offshore securities market (as such term is defined in Rule 902(b) under the Securities Act).

“Qualified IPO” means an initial public offering, and a listing of, common shares of a company on a Qualifying Exchange, *provided* that in the case that such listing is on a national securities exchange (as such term is defined in Section 6 of the Exchange Act) or a designated offshore securities market (as such term is defined in Rule 902(b) under the Securities Act), such listing shall result in a public float of not less than the percentage required by the applicable listing rules.

“Rate Calculation Business Day” means a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for general business (including dealings in foreign exchange) in Hong Kong or The City of New York.

“Rate Calculation Date” means the day which is two Rate Calculation Business Days before the due date of the relevant amount.

“Rating Agencies” means (1) S&P, (2) Moody’s and (3) Fitch; *provided* that if S&P, Moody’s or Fitch, two of the three or all three of them shall not make a rating of the Notes publicly available, one or more nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P, Moody’s, Fitch, two of the three or all three of them, as the case may be.

“Rating Category” means (1) with respect to S&P, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); (2) with respect to Moody’s, any of the following categories: “Ba,” “B,” “Caa,” “Ca,” “C” and “D” (or equivalent successor categories); (3) with respect to Fitch, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); and (4) the equivalent of any such category of S&P, Moody’s or Fitch used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “-” for S&P; “1,” “2” and “3” for Moody’s and “+” and “-” for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from “BB+” to “BB,” as well as from “BB-” to “B+,” will constitute a decrease of one gradation).

“Rating Date” means (1) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control or (2) in connection with actions contemplated under the caption “– Consolidation, Merger and Sale of Assets,” that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

“Rating Decline” means (1) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below, or (2) in connection with actions contemplated under the caption “– Consolidation, Merger and Sale of Assets,” the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

- (a) in the event the Notes are rated by both S&P and Fitch on the Rating Date as Investment Grade, the rating of the Notes by either Rating Agency shall be below Investment Grade;
- (b) in the event the Notes are rated by either, but not both, of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any such Rating Agency shall be below Investment Grade; or
- (c) in the event the Notes are rated below Investment Grade by both Rating Agencies on the Rating Date, the rating of the Notes by either Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

“Receivable Financing” means any financing transaction or series of financing transactions that have been or may be entered into by the Company or any Restricted Subsidiary pursuant to which the Company or any Restricted Subsidiary may sell, convey or otherwise transfer to another Person, or may grant a security interest in, any receivables, mortgages, royalty, other revenue streams, assets or interests therein (including without limitation, all security interests in goods financed thereby (including equipment and property), the proceeds of such receivables, and other assets which are customarily sold or in respect of which security interests are customarily granted in connection with securitization or factoring transactions involving such assets) for credit or liquidity management purposes (including discounting, securitization or factoring transactions) either (i) in the ordinary course of business or (ii) by way of selling securities that are, or are capable of being, listed on any stock exchange or in any securities market and are offered using an offering memorandum or similar offering document.

“Receivable Financing Assets” means assets that are underlying and are sold, conveyed or otherwise transferred or pledged in a Receivable Financing.

“Relevant Indebtedness” means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market, issued outside of the PRC with a tenor of not less than a year (excluding for the avoidance of doubt any syndicated or bilateral loans).

“Renminbi” or “CNY” means yuan, the lawful currency of the PRC.

“Replacement Assets” means properties and assets that replace the properties and assets that were the subject of an Asset Sale or properties or assets that will be used in the businesses of the Company and the Restricted Subsidiaries (including any shares of Capital Stock in a Person holding such properties or assets that is primarily engaged in such business).

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“Restructuring” means the restructuring and Qualified IPO of the ordinary shares of a Subsidiary of the Company in the Restructuring Group.

“Restructuring Group” means the group of Subsidiaries of the Company which the Company may spin off and separately listed on a Qualifying Exchange as part of the Restructuring.

“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 Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

“Security Documents” means, collectively, the pledge agreements and any other agreements or instruments that may evidence or create any security interest in favor of the Trustee and/or any Holders in any or all of the Collateral.

“Senior Indebtedness” of the Company or a Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or the Restricted Subsidiary, as relevant, whether outstanding on the Original 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 (a) in respect of the Company, the Notes, (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee, or (c) in respect of any Restricted Subsidiary that is a JV Subsidiary Guarantor, its JV Subsidiary Guarantee; *provided* that Senior Indebtedness does not include (1) any obligation to the Company or any Restricted Subsidiary, trade payables or (3) Indebtedness Incurred in violation of the Indenture.

“Significant Restricted Subsidiary” means a Restricted Subsidiary, or group of Restricted Subsidiaries, that would, when taken together, be a “significant subsidiary” within the meaning of the definition of “significant subsidiary” in Article 1, Rule 1-02(w) of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the Original Issue Date; *provided* that in each instance in such definition in which the term “10 percent” is used, the term “5 percent” shall be substituted therefor.

“Spot Rate”, for a Rate Calculation Date, means the CNY/U.S. Dollar official fixing rate, expressed as the amount of CNY per one U.S. Dollar, for settlement in two Rate Calculation Business Days reported by the Treasury Markets Association which appears on Reuters page <CNHFIX> at approximately 11:15 a.m. (Hong Kong time). If such rate is not available, the Principal Paying Agent will determine the Spot Rate at or around 11:00 a.m. (Hong Kong time) on the Rate Calculation Date as the most recently available CNY/U.S. dollar official fixing rate for settlement in two Rate

Calculation Business Days reported by The State Administration of Foreign Exchange of the PRC, which is reported on the Reuters Screen Page CNY=SAEC, provided that the Principal Paying Agent has received a written request to make such determination from the Company or the Subsidiary Guarantors, as the case may be. Reference to a page on the Reuters Screen means the display page so designated on the Reuter Monitor Money Rates Service (or any successor service) or such other page as may replace that page for the purpose of displaying a comparable currency exchange rate.

“Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company 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 Company 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 Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor which is contractually subordinated or junior in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

“Subordinated Shareholder Loan” means any loan to the Company or any Restricted Subsidiary from Permitted Holders which (i) is subordinated in right of payment to the Notes, (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 Notes and (iii) does not provide any cash payment of interest.

“Subsidiary” means, with respect to any Person, (i) any corporation, association or other business entity of which 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) of which 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.

“Subsidiary Guarantee” means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“Subsidiary Guarantor” means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; *provided* that Subsidiary Guarantor will not include (a) any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes or (b) any JV Subsidiary Guarantor.

“Subsidiary Guarantor Pledgor” means any initial Subsidiary Guarantor Pledgor named herein and any other Subsidiary Guarantor which pledges Collateral to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor under its Subsidiary Guarantee; *provided* that a Subsidiary Guarantor Pledgor will not include any person whose pledge under the Security Documents has been released in accordance with the Security Documents, the Indenture and the Notes.

“Tangible Net Worth” means, at any time, the aggregate of the amounts paid up or credited as paid up on the issued share capital of the Company (other than any redeemable shares) at that time and the aggregate amount of the reserves of the Company on a consolidated basis at that time including: (a) any amount credited to the share premium account; (b) any capital redemption reserve fund; (c) any balance standing to the credit of the consolidated profit and loss account of the Company; and (d) any statutory reserves, but deducting (1) any debit balance on the consolidated statement of comprehensive income of the Company, (2) (to the extent included) any amount shown in respect of goodwill (including goodwill arising only on consolidation) or other intangible assets of the Company, (3) (to the extent included) any amount set aside for taxation, deferred taxation or bad debts, (4) (to the extent included) any declared dividend and other distributions to the Company’s shareholders to the extent that such dividend or other distribution is not provided for in the most recent financial statements of the Company, and (5) (to the extent included) minority interests, and so that no amount shall be included or excluded more than once.

“Temporary Cash Investment” means any of the following:

- (1) direct obligations of the United States of America, the United Kingdom, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency thereof or obligations fully and unconditionally Guaranteed by the United States of America, the United Kingdom, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency thereof, 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 or Moody’s;
- (2) time deposit accounts, certificates of deposit, demand deposits 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, the United Kingdom, any state of the European Economic Area 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 Rule 436 under the Securities 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, issued by a corporation (other than an Affiliate of the Company) 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-2” (or higher) according to Moody’s or “A-2” (or higher) according to S&P;
- (5) securities maturing within one year from the date of acquisition 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 or Moody’s;
- (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 or financial institution organized under the laws of the PRC, Hong Kong or anywhere the Company 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, Hong Kong or anywhere the Company 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 Company and its Restricted 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 Company (which the Company shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); *provided* that, only with respect to clause (2)(h) of “– Certain Covenants – Limitation on Indebtedness and Preferred Stock” covenant 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, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness *provided further*, that with respect to Future Subsidiary Guarantors and Future Subsidiary Guarantor Pledgors, Total Assets of any future Restricted Subsidiary shall mean, as of any date, the total assets of such Restricted Subsidiary measured as of the last day of the most recent fiscal quarter period for which financial statements of such Restricted Subsidiary (which the Company shall use its reasonably best efforts to compile on a timely manner) is available.

“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 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 Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture; 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 are entitled to 95% or more of the economic benefits distributable by such Subsidiary.

TAXATION

The following summary of certain Cayman Islands, British Virgin Islands, Hong Kong and PRC tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this offering 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 Notes 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 Notes should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

CAYMAN ISLANDS

The following is a discussion of certain Cayman Islands tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstance, and does not consider tax consequences other than those arising under Cayman Islands law.

Under the laws of the Cayman Islands, payments of interest, principal or premium on the Notes will not be subject to taxation and no withholding will be required on the payment of interest, principal or premium to any holder of the Notes, as the case may be, nor will gains derived from the disposal of the Notes be subject to any capital gains, income or corporation tax in the Cayman Islands. The Cayman Islands currently have no exchange control restrictions and are not party to any double taxation treaties. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty.

No stamp duties or similar taxes or charges are payable under the laws of the Cayman Islands in respect of the execution and issue of the Notes unless they are executed in or brought within (for example, for the purposes of enforcement) the jurisdiction of the Cayman Islands, in which case stamp duty of 0.25% of the face amount thereof may be payable on each Note (up to a maximum of 250 Cayman Islands dollars ("CI\$")) unless stamp duty of CI\$500 has been paid in respect of the entire issue of Notes.

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (ii) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from November 23, 2004.

BRITISH VIRGIN ISLANDS

There is no income or other tax of the British Virgin Islands imposed by withholding or otherwise on any payment to be made to or by the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) pursuant to the Subsidiary Guarantees or JV Subsidiary Guarantees (if any).

HONG KONG

Withholding Tax. No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) and interest in respect of the Notes.

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 Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Notes 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 Notes 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 Notes as the Notes are not denominated in H.K. dollars and not redeemable in H.K. dollars.

PRC

The following summary of certain PRC tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, rules and regulations in effect as of the date of this offering 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 Notes 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 Notes should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

Taxation on Interest and Capital Gains. Under the PRC EIT Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% (or lower treaty rate, if any) must be withheld from interest payable to investors that are “non-resident enterprises” and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant interest income is not effectively connected with the establishment or place of business, or 20% for “non-resident individuals” investors (or lower treaty rate, if any), if we are deemed to be a PRC “resident enterprise” and the interest is deemed as PRC-source income. Any gain realized on the transfer of the Notes by such “non-resident enterprises” investors would be subject to a 10%, or 20% for “non-resident individuals” investors (or lower treaty rate, if any) PRC income tax if such gain is regarded as income derived from sources within the PRC in the case that we are treated as a PRC “resident enterprise”. As advised by Commerce & Finance Law Offices, PRC legal counsel to the Initial Purchasers, there is uncertainty as to whether we will be treated as a PRC “resident enterprise” for the purpose of the EIT Law. See “Risk Factors – Risks Relating to the Notes – Under the EIT Law we may be classified as a “resident enterprise” of the PRC, which could result in unfavorable tax consequences to us and our non-PRC holders of the Notes.” If we are treated as a PRC “resident enterprise,” the interest we pay in respect of the Notes, and the gain any investor may realize from the transfer of the Notes, might be treated as income derived from sources within the PRC and be subject to PRC income tax.

Stamp duty. No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside the PRC) of a Note.

PLAN OF DISTRIBUTION

Subject to the terms and conditions in the purchase agreement to be dated the date of the offering memorandum (the “Purchase Agreement”), the Initial Purchasers have agreed to purchase from us, and we agree to sell to the Initial Purchasers, CNY1,200.0 million aggregate principal amount of the Further Notes.

The Purchase Agreement provides that the obligation of the Initial Purchasers to purchase the Further Notes is subject to approval of certain legal matters by counsel and to certain other conditions. The Purchase Agreement may be terminated by the Initial Purchasers in certain circumstances prior to the delivery and payment of the Further Notes. The Purchase Agreement provides that the Company will pay the Initial Purchasers a customary commission.

The Initial Purchasers initially propose to offer the Further Notes for resale at the issue price that appears on the cover of this offering memorandum. After the initial offering, the Initial Purchasers may change the offering price and any other selling terms. The Initial Purchasers may offer and sell Further Notes through certain of their affiliates. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be made by the Initial Purchasers or such affiliate on behalf of the issuer in such jurisdiction. In addition, we have agreed with the Initial Purchasers that certain private banks will be paid a commission in connection with the purchase of the Further Notes by their private bank clients.

In the Purchase Agreement, we and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the U.S. Securities Act, or contribute to payments that the Initial Purchasers may be required to make in respect of those liabilities.

The Further Notes are subject to certain restrictions on resale and transfer as described under “Transfer Restrictions”. The Original Notes are listed on the SGX-ST. Approval in-principle has been received from the SGX-ST for the listing and quotation of the Further Notes on the SGX-ST. However, we cannot assure you that such listing will be obtained or maintained. The Initial Purchasers have advised us that it may make a market in the Further Notes, but it is not obligated to do so. The Initial Purchasers may discontinue any market making in the Further Notes at any time in its sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the Further Notes, that you will be able to sell your Further Notes at a particular time or that the prices that you receive when you sell will be favorable.

In connection with the offering of the Further Notes, the Initial Purchasers may engage in overallotment, stabilizing transactions and syndicate covering transactions. Overallotment involves sales in excess of the offering size, which creates a short position for the Initial Purchasers. Stabilizing transactions involve bids to purchase the Further Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Further Notes. Syndicate covering transactions involve purchases of the Further Notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions and syndicate covering transactions may cause the price of the Further Notes to be higher than it would otherwise be in the absence of those transactions. If any of the Initial Purchasers engages in stabilizing or syndicate covering transactions, it may discontinue them at any time.

The Initial Purchasers and their affiliates perform various financial advisory, investment banking and commercial banking services from time to time for us and our affiliates and may be paid fees in connection with such services from time to time. We may from time to time enter into hedging or other derivative transactions, including swap agreements, future or forward contracts, option agreements or other similar arrangements, as part of our risk management strategy with the Initial Purchasers or their affiliates, which may include transactions relating to our obligations under the Further Notes, all to the extent permitted under the Indenture. Our obligations under these transactions may be secured by cash or other collateral to the extent permitted under the Indenture.

The Initial Purchasers or certain of their affiliates may purchase Further Notes and be allocated Further Notes for asset management and/or proprietary purposes but not with a view to distribute.

No action is being taken or is contemplated by us that would permit a public offering of the Further Notes or possession or distribution of any preliminary offering memorandum or offering memorandum or any amendment thereof, any supplement thereto or any other offering material relating to the Further Notes in any jurisdiction where, or in any other circumstance in which, action for those purposes is required.

The Further Notes and the Subsidiary Guarantees have not been and will not be registered under the U.S. Securities Act and may only be offered, sold or delivered to non-U.S. persons outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

In addition, until 40 days following the commencement of this offering, an offer or sale of Further Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sell in compliance with an exemption from registration under the Securities Act.

We expect that delivery of the Further Notes will be made against payment therefor on or about the closing date specified on the cover page of this offering memorandum, which will be on or about the seventh business day following the pricing date of the Further Notes (this settlement cycle being referred to as “T+7”). Accordingly, purchasers who wish to trade Further Notes on the date of pricing or the next two succeeding business days will be required, by virtue of the fact that the Further Notes initially will settle in T+7, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Further Notes who wish to trade the Further Notes on the date of pricing or next two succeeding business days should consult their own legal adviser.

UNITED KINGDOM

Each Initial Purchaser represents, warrants and agrees that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of the Further Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Further Notes in, from or otherwise involving the United Kingdom.

HONG KONG

Each Initial Purchaser represents and agrees that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Further Notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the SFO) and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of C(WUMP)O); and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Further Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Further Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

JAPAN

The Further Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the “FIEA”) and accordingly, the Initial Purchasers have not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to, any Japanese Person except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan. For the purposes of this paragraph, “Japanese Person” shall mean any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949 as amended)).

SINGAPORE

Each Initial Purchaser acknowledges that the offering memorandum has not been and will not be registered as a prospectus with the MAS under the SFA. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Further Notes may not be circulated or distributed, nor may the Further Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, 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 Further Notes 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 Further Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) 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;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

EUROPEAN ECONOMIC AREA

Prohibition of Sales to EEA Retail Investors

The Further Notes may not be offered, sold or otherwise made available to any retail investor in the European Economic Area.

For the purposes of this provision: the expression "retail investor" means a person who is one (or more) of the following:

- (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 (as amended, the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II."

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 Further Notes.

The Further Notes are subject to restrictions on transfer as summarized below. By purchasing Further Notes (including the Subsidiary Guarantees), you will be deemed to have made the following acknowledgements, representations to, and agreements with, us and the Initial Purchasers:

1. You understand and acknowledge that:
 - the Further Notes (including the Subsidiary Guarantees) have not been registered under the U.S. Securities Act or any other applicable securities laws;
 - the Further Notes (including the Subsidiary Guarantees) are being offered for resale in transactions that do not require registration under the U.S. Securities Act or any other securities laws;
 - the Further Notes (including the Subsidiary Guarantees) are being offered and sold only outside of the United States, to certain persons, other than U.S. persons, in offshore transactions in reliance on Rule 903 of Regulation S under the U.S. Securities Act; and
 - unless so registered, the Further Notes (including the Subsidiary Guarantees) may not be sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph 4 below.
2. You represent that you are not an affiliate (as defined in Rule 144 under the U.S. Securities Act) of ours, that you are not acting on our behalf and that you are not a U.S. person (as defined in Regulation S under the U.S. Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing Notes (including the Subsidiary Guarantees) in an offshore transaction in accordance with Regulation S.
3. You acknowledge that neither we nor any of the Initial Purchasers nor any person representing us or the Initial Purchasers have made any representation to you with respect to us or the offering of the Further Notes (including the Subsidiary Guarantees), other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the Further Notes. You agree that you have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase Further Notes (including the Subsidiary Guarantees) including an opportunity to ask questions of and request information from us.

4. You represent that you are purchasing Notes (including the Subsidiary Guarantees) 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 Further Notes (including the Subsidiary Guarantees) in violation of the U.S. Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing Notes, and each subsequent holder of the Further Notes (including the Subsidiary Guarantees) by its acceptance of the Further Notes will agree, that until the end of the Resale Restriction Period (as defined below), the Notes (including the Subsidiary Guarantees) may be offered, sold or otherwise transferred only:
- (a) to us;
 - (b) under a registration statement that has been declared effective under the U.S. Securities Act;
 - (c) outside the United States in compliance with Rule 903 or 904 under the Securities Act; or
 - (d) under any other available exemption from the registration requirements of the Securities Act,

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller or account's control and in compliance with applicable state and other securities laws.

5. You also acknowledge that:
- the above restrictions on resale will apply from the closing date until the date that is 40 days after the later of the closing date and the last date that we or any of our affiliates was the owner of the Further Notes or any predecessor of the Further Notes (the "Resale Restriction Period"), and will not apply after the applicable Resale Restriction Period ends;
 - we and the trustee reserve the right to require in connection with any offer, sale or other transfer of Further Notes under clause (d) above the delivery of an opinion of counsel, certifications and/or other information satisfactory to us and the trustee; and
 - each temporary Note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE “RESALE RESTRICTION TERMINATION DATE”) THAT IS 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATE OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY), ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATIONS UNDER THE SECURITIES ACT, OR (D) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY’S AND THE TRUSTEE’S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS NOT A U.S. PERSON NOR IS IT PURCHASING FOR THE ACCOUNT OF A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATIONS UNDER THE SECURITIES ACT.

ON THE DATE THAT IS 40 DAYS AFTER JULY 3, 2018, OR IF SUCH DATE IS NOT A BUSINESS DAY, ON THE NEXT SUCCEEDING BUSINESS DAY (THE “EXCHANGE DATE”), THIS TEMPORARY GLOBAL SECURITY WILL BE EXCHANGED IN WHOLE (FREE OF CHARGE) FOR A PERMANENT GLOBAL SECURITY IN SUBSTANTIALLY THIS FORM. AFTER THE EXCHANGE DATE, THE HOLDER OF THIS TEMPORARY GLOBAL SECURITY WILL NOT BE ENTITLED TO RECEIVE ANY PAYMENT OF INTEREST HEREON.

6. You acknowledge that we, the Initial Purchasers 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 Notes is no longer accurate, you will promptly notify us and the Initial Purchasers. If you are purchasing any Notes (including the Subsidiary Guarantees) 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.

RATINGS

The Notes are rated BBB- by Fitch Ratings. The rating reflects the rating agency's assessment of the likelihood of timely payment of the principal of and interest on the Notes. The rating does not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. Each such rating should be evaluated independently of any other rating on the Notes, on other securities of ours, or on us. Additionally, we have been assigned a long-term corporate credit rating of BB+ with a stable outlook by Standard and Poor's Rating Services, a corporate family rating of Ba2 with a stable outlook by Moody's Investors Service and a long-term foreign currency issuer default rating of BBB- with a stable outlook by Fitch Ratings. We cannot assure you that the ratings on the Notes or our corporate credit rating will remain in effect for any given period or that the ratings will not be lowered, put on negative outlook or CreditWatch negative, or otherwise revised or withdrawn entirely by such rating agencies in the future if in their judgment circumstances so warrant.

LEGAL MATTERS

Certain legal matters with respect to the Further Notes will be passed upon for us by Sidley Austin as to matters of Hong Kong, United States federal and New York law and Harney Westwood & Riegels as to matters of Cayman Islands law and BVI law. Certain legal matters will be passed upon for the Initial Purchasers by Allen & Overy as to matters of United States federal and New York law and Commerce & Finance Law Offices as to matters of PRC law.

INDEPENDENT AUDITOR

Our consolidated financial statements as of and for the years ended December 31, 2016 and 2017 included in this offering memorandum have been audited by PricewaterhouseCoopers, independent certified public accountants, as stated in their reports appearing herein. Our consolidated financial statements as of and for the year ended December 31, 2015 are included as comparative information within the audited consolidated financial statements as of and for the year ended December 31, 2016.

GENERAL INFORMATION

CONSENTS

We have obtained all necessary consents, approvals and authorizations in the Cayman Islands, the BVI and Hong Kong in connection with the issue and performance of the Notes and the Subsidiary Guarantees. The entering into of the Indenture and the issue of the Notes have been authorized by a resolution of our board of directors dated June 20, 2018.

LITIGATION

Except as disclosed in this offering 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 Notes or the Subsidiary Guarantees.

NO MATERIAL ADVERSE CHANGE

Except as otherwise disclosed in this offering memorandum, 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 Notes.

DOCUMENTS AVAILABLE

For so long as any of the Notes is outstanding, copies of the Indenture may be inspected free of charge during normal business hours on any weekday (except public holidays) at the specified offices of the Paying Agent.

For so long as any of the Notes is outstanding, copies of the independent auditor's reports and/or review report and/or our published financial statements, if any, including the independent auditor's reports and/or review report set out in the section entitled "Index to Financial Information" in this offering memorandum, may be obtained during normal business hours on any weekday (except public holidays) at the specified offices of the Paying Agent.

CLEARING SYSTEMS AND SETTLEMENT

The Further Notes have been accepted for clearance through the facilities of Euroclear and Clearstream. Certain trading information with respect to the Further Notes is set forth below:

	<u>Temporary</u>	<u>Permanent</u>
ISIN	XS1840623992	XS1790624883
Common Code	184062399	179062488

LISTING OF THE NOTES

The Original Notes are listed on the SGX-ST. Approval in-principle has been received from the SGX-ST for the listing and quotation of the Further Notes 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 the listing and quotation of the Further Notes on, the SGX-ST are not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) or any other subsidiary or associated company of the Company, the Further Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (if any). For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, 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 Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of CNY1,000,000.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Note is exchanged for individual definitive notes, we will appoint and maintain a paying agent in Singapore where the Notes may be presented or surrendered for payment or redemption. In addition, in the event that a Global Note is exchanged for individual definitive notes, 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 individual definitive notes, including details of the paying agent in Singapore.

INDEX TO FINANCIAL INFORMATION

Audited Financial Statements as of and for the year ended December 31, 2017

		2017 Annual Report⁽¹⁾
Independent Auditor's Report	F-2	77
Consolidated Balance Sheet	F-7	82
Consolidated Statement of Comprehensive Income	F-9	84
Consolidated Statement of Changes in Equity	F-11	86
Consolidated Statement of Cash Flows	F-13	88
Notes to the Consolidated Financial Information	F-14	89

Audited Financial Statements as of and for the year ended December 31, 2016

		2016 Annual Report⁽¹⁾
Independent Auditor's Report	F-106	77
Consolidated Balance Sheet	F-111	82
Consolidated Statement of Comprehensive Income	F-113	84
Consolidated Statement of Changes in Equity	F-115	86
Consolidated Statement of Cash Flows	F-117	88
Notes to the Consolidated Financial Statements	F-118	89

Note:

- (1) Our audited consolidated financial statements set out herein have been reproduced from our annual reports for the years ended December 31, 2016 and 2017 and page references are references to pages set forth in such annual reports.

To the Shareholders of Shimao Property Holdings Limited

(incorporated in Cayman Islands with limited liability)

Opinion**What we have audited**

The consolidated financial statements of Shimao Property Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 82 to 180, which comprise:

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

Our opinion

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

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Key Audit Matters

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

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

- Valuation of investment properties
- Impairment of goodwill

Key Audit Matters (CONTINUED)

Key Audit Matter

Valuation of investment properties

Refer to note 2.7 "Summary of significant accounting policies – Investment property" and note 7 "Investment properties" to the consolidated financial statements.

The Group's investment properties were carried at RMB34,036 million as at 31 December 2017 and a revaluation gain of RMB679 million was recorded in the consolidated income statement for the year ended 31 December 2017, which represented 11.1% of total assets as at 31 December 2017 and 3.6% of profit before income tax for the year ended 31 December 2017 respectively.

We focused on this area because the investment property balance and the revaluation gain during the year based on the valuation of the investment properties are significant to the financial statements and the valuation of the investment properties, which was performed by independent and professionally qualified valuers ("the Valuers"), was highly dependent on the estimates on key assumptions, including market prices and estimated costs to be incurred.

How our audit addressed the Key Audit Matter

We assessed the competence, independence and integrity of the Valuers.

We assessed whether the valuation methodology used is acceptable with the assistance of our internal valuation experts.

We tested the inputs used in the valuation, on a sample basis, to available supporting evidence including rental contracts, available third-party reports and market data of comparable properties. We also checked the mathematical accuracy of the underlying calculations in the valuation model.

We challenged management's estimates on key assumptions adopted in the valuation by comparing market prices to the recent comparable transactions and comparing estimated costs to be incurred to the project budgets. We also evaluated past actual to budget variance to assess the reliability of the project budgets.

In addition, we assessed the sensitivity analysis performed by management to consider the likelihood that the actual outcome differs from the estimates on key assumptions to an extent that results in significant change to the valuation of the investment properties.

Based on the work conducted, we found that the methodology applied by management was acceptable and the estimates on key assumptions adopted were supported by the evidence we gathered.

Key Audit Matters (CONTINUED)

Key Audit Matter

How our audit addressed the Key Audit Matter

Impairment of goodwill

Refer to note 2.8 "Summary of significant accounting policies – Intangible assets – goodwill" and note 9 "Intangible assets" to the consolidated financial statements.

As at 31 December 2017, goodwill in relation to Shanghai Shimao Co., Ltd. ("Shanghai Shimao"), a subsidiary listed in PRC stock market amounted to RMB1,710 million, representing 92.9% of the goodwill and 1.8% of net assets of the Group.

Management is required to assess goodwill impairment on an annual basis. In view of volatility of the PRC stock market and that the market value of Shanghai Shimao was lower than its net book value as at 31 December 2017, management was required to assess if any impairment provision was needed based on discount future cash flow calculations.

We focused on this area because the preparation of the discounted cash flow projection involved estimates on key assumptions about Shanghai Shimao's gross margin excluding land appreciation tax, long term growth rate of revenue and discount rate.

We assessed the key assumptions used in the cash flow forecasts (such as gross margin excluding land appreciation tax and long term growth rate of revenue) by comparing approved budget, historical trend, available market data and industry outlook.

We assessed the discount rate used in the discounted cash flow projection with the assistance from our internal valuation experts.

We tested the mathematical accuracy of the discounted cash flow projection and compared cash flow forecasts to the latest approved management plan. We also compared the current year's actual performance with the prior year's management plan to assess the reliability of the management plan.

In addition, we assessed the sensitivity analysis performed by management to consider the likelihood that the actual outcome differs from the estimates on key assumptions to an extent that results in goodwill being impaired.

Based upon the above procedures, we found that management's estimates on key assumptions were supported by the evidence we gathered.

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

The Audit Committee are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Esmond S.C. Kwan.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2018

		As at 31 December	
	Note	2017	2016
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property and equipment	6	13,513,914	13,493,658
Investment properties	7	34,036,147	32,270,913
Land use rights	8	8,176,521	8,218,571
Intangible assets	9	1,840,658	1,840,658
Associated companies	10	1,345,018	912,465
Joint ventures	11	13,601,709	9,183,425
Amounts due from related parties	12	1,471,478	1,923,231
Available-for-sale financial assets	13	1,068,775	941,256
Deferred income tax assets	14	2,523,663	2,298,849
Other non-current assets	15	7,449,318	1,629,639
		85,027,201	72,712,665
Current assets			
Inventories	16	133,554,704	120,342,997
Trade and other receivables and prepayments	17	15,583,786	20,256,536
Prepayment for acquisition of land use rights	18	21,605,517	17,950,915
Prepaid income taxes		2,743,827	2,691,546
Available-for-sale financial assets	13	–	3,000,000
Amounts due from related parties	12	16,035,676	2,623,314
Derivative financial instruments	19	1,190	90,199
Restricted cash	20	4,469,331	2,875,658
Cash and cash equivalents	20	28,537,441	19,359,175
		222,531,472	189,190,340
Total assets		307,558,673	261,903,005
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	21	348,864	348,864
Reserves	22	57,285,819	52,107,187
		57,634,683	52,456,051
Non-controlling interests			
Perpetual capital instruments	23	4,200,000	4,500,000
Other non-controlling interests		34,912,114	31,260,942
		39,112,114	35,760,942
Total equity		96,746,797	88,216,993

As at 31 December 2017

		As at 31 December	
	Note	2017	2016
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	24	69,309,472	49,188,203
Finance lease liabilities	25	–	222,353
Deferred income tax liabilities	14	6,025,277	5,666,533
		75,334,749	55,077,089
Current liabilities			
Trade and other payables	26	33,524,265	27,307,614
Advanced proceeds received		34,117,188	31,903,265
Income tax payable		15,641,375	13,682,645
Borrowings	24	18,195,220	17,755,309
Finance lease liabilities	25	130,560	171,420
Amounts due to related parties	27	33,868,519	27,788,670
		135,477,127	118,608,923
Total liabilities		210,811,876	173,686,012
Total equity and liabilities		307,558,673	261,903,005

The notes on pages 89 to 180 are an integral part of these consolidated financial statements.

The financial statements on pages 82 to 180 were approved by the Board of Directors on 27 March 2018 and were signed on its behalf.

Hui Wing Mau
Director

Hui Sai Tan, Jason
Director

	Note	Year ended 31 December	
		2017 RMB'000	2016 RMB'000
Revenue	5	70,425,874	59,286,161
Cost of sales	29	(48,996,361)	(42,937,532)
Gross profit		21,429,513	16,348,629
Fair value gains on investment properties – net	7	679,484	1,996,673
Other income/other gains – net	28	545,095	838,785
Selling and marketing costs	29	(1,461,804)	(1,352,643)
Administrative expenses	29	(2,989,871)	(2,742,720)
Other operating expenses	29	(523,702)	(268,509)
Operating profit		17,678,715	14,820,215
Finance income		2,059,980	369,832
Finance costs		(731,566)	(1,545,778)
Finance income/(costs) – net	30	1,328,414	(1,175,946)
Share of results of associated companies and joint ventures		(315,376)	(448,391)
Profit before income tax		18,691,753	13,195,878
Income tax expense	33	(8,121,060)	(5,685,493)
Profit for the year		10,570,693	7,510,385
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss</i>			
Fair value losses on available-for-sale financial assets, net of tax		(8,641)	(219,911)
Translation reserves		(101)	–
Total comprehensive income for the year		10,561,951	7,290,474

For the year ended 31 December 2017

	Note	Year ended 31 December	
		2017 RMB'000	2016 RMB'000
Profit for the year attributable to:			
Equity holders of the Company		7,840,494	5,171,855
Non-controlling interests		2,730,199	2,338,530
		10,570,693	7,510,385
Total comprehensive income for the year attributable to:			
Equity holders of the Company		7,835,302	5,042,283
Non-controlling interests		2,726,649	2,248,191
		10,561,951	7,290,474
Earnings per share for profit attributable to the equity holders of the Company			
– Basic (RMB cents)	34	232.4	150.6
– Diluted (RMB cents)	34	231.9	150.4

The notes on pages 89 to 180 are an integral part of these consolidated financial statements.

	Note	Attributable to the equity holders of the Company				Total RMB'000
		Share capital RMB'000	Reserves RMB'000	Perpetual capital instruments RMB'000	Non- controlling interests RMB'000	
Balance at 1 January 2017		348,864	52,107,187	4,500,000	31,260,942	88,216,993
Comprehensive income						
Profit for the year		–	7,840,494	293,845	2,436,354	10,570,693
Other comprehensive income for the year						
<i>Items that may be reclassified to profit or loss</i>						
Fair value losses on available-for-sale financial assets		–	(6,788)	–	(4,733)	(11,521)
Tax on fair value losses on available-for-sale financial assets		–	1,697	–	1,183	2,880
Translation reserves		–	(101)	–	–	(101)
Total comprehensive income for the year		–	7,835,302	293,845	2,432,804	10,561,951
Acquisition of subsidiaries	40(a)	–	–	–	857,447	857,447
Capital contribution from non-controlling interests	40(d(i))	–	–	–	2,973,971	2,973,971
Changes in ownership interests in subsidiaries						
without change of control	40(d(ii))	–	(236,983)	–	(2,499,695)	(2,736,678)
Deemed disposal of a subsidiary	40(c)	–	–	–	(8,109)	(8,109)
Equity-settled share-based payment						
– Value of employee services	22	–	75,470	–	–	75,470
– Purchase of shares	22	–	(65,328)	–	–	(65,328)
– Dividends received	22	–	6,510	–	–	6,510
Perpetual capital instruments issued	23	–	–	1,200,000	–	1,200,000
Perpetual capital instruments redeemed	23	–	–	(1,500,000)	–	(1,500,000)
Perpetual capital instruments dividends		–	–	(293,845)	–	(293,845)
Dividends and distributions	35	–	(2,436,339)	–	(105,246)	(2,541,585)
Total transactions with owners		–	(2,656,670)	(593,845)	1,218,368	(2,032,147)
Balance at 31 December 2017		348,864	57,285,819	4,200,000	34,912,114	96,746,797

For the year ended 31 December 2017

	Note	Attributable to the equity holders of the Company			Non-controlling interests RMB'000	Total RMB'000
		Share capital RMB'000	Reserves RMB'000	Perpetual capital instruments RMB'000		
Balance at 1 January 2016		356,275	49,805,385	–	24,587,660	74,749,320
Comprehensive income						
Profit for the year		–	5,171,855	95,000	2,243,530	7,510,385
Other comprehensive income for the year						
<i>Items that may be reclassified to profit or loss</i>						
Fair value losses on available-for-sale financial assets		–	(172,763)	–	(120,451)	(293,214)
Tax on fair value losses on available-for-sale financial assets		–	43,191	–	30,112	73,303
Total comprehensive income for the year		–	5,042,283	95,000	2,153,191	7,290,474
Transfer from joint ventures to subsidiaries		–	–	–	1,229,298	1,229,298
Capital contribution from non-controlling interests		–	–	–	6,556,880	6,556,880
Changes in ownership interests in subsidiaries						
without change of control		–	116,685	–	(3,043,613)	(2,926,928)
Disposal of subsidiaries		–	–	–	(29,999)	(29,999)
Equity-settled share-based payment						
– Value of employee services	22	–	50,005	–	–	50,005
– Purchase of shares	22	–	(37,198)	–	–	(37,198)
– Dividends received	22	–	7,518	–	–	7,518
Perpetual capital instruments issued	23	–	–	5,100,000	–	5,100,000
Perpetual capital instruments redeemed	23	–	–	(600,000)	–	(600,000)
Perpetual capital instruments dividends		–	–	(95,000)	–	(95,000)
Translation reserves		–	(36)	–	–	(36)
Buy-back of shares						
– Purchase of shares	21	–	(758,374)	–	–	(758,374)
– Dividends received		–	6,455	–	–	6,455
– Cancellation of shares		(7,411)	7,411	–	–	–
Dividends and distributions	35	–	(2,132,947)	–	(192,475)	(2,325,422)
Total transactions with owners		(7,411)	(2,740,481)	4,405,000	4,520,091	6,177,199
Balance at 31 December 2016		348,864	52,107,187	4,500,000	31,260,942	88,216,993

The notes on pages 89 to 180 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December	
		2017 RMB'000	2016 RMB'000
Cash flow from operating activities			
Net cash generated from operations	36	22,741,854	5,629,945
Interest received	30	581,511	369,832
Interest paid		(5,711,350)	(4,929,302)
PRC income tax paid		(6,132,804)	(4,530,997)
Net cash generated from/(used in) operating activities		11,479,211	(3,460,522)
Cash flow from investing activities			
Additions of property and equipment and investment properties		(2,257,268)	(3,730,726)
Disposal of property and equipment		6,526	19,899
Additions of land use rights		(58,254)	(196,177)
Acquisition of derivative financial instruments	19	(47,304)	(13,714)
Settlement of derivative financial instruments	19	49,334	105,775
Increase in prepayments for acquisition of equity interests	15	(5,619,589)	(660,000)
Acquisition of subsidiaries	40	(250,079)	(154,462)
Disposal of subsidiaries	40	(125,979)	3,097,913
Capital injections to associated companies	10	(582,791)	(9,606)
Capital injections to joint ventures	11	(3,892,079)	(663,310)
Disposal of shares of joint ventures	11	5,000	–
Advances to joint ventures and associated companies	12	(13,184,690)	(189,922)
Acquisition of available-for-sale financial assets	13	(1,080,000)	(3,100,000)
Disposal of available-for-sale financial assets	13	3,945,961	–
Gain on investment in structured products issued by banks	28	85,847	93,523
Net cash used in investing activities		(23,005,365)	(5,400,807)
Cash flow from financing activities			
Proceeds from borrowings		65,975,338	65,178,815
Repayments of borrowings and finance lease liabilities		(43,385,558)	(69,759,851)
Purchase of shares		(65,328)	(37,198)
Buyback of shares		–	(758,374)
Capital contribution from non-controlling interests of subsidiaries		2,973,971	6,556,880
Acquisition of additional interests in subsidiaries		(2,736,678)	(1,881,928)
Payment for acquisition of equity interests in prior year		(1,045,000)	–
Proceeds from issue of perpetual capital instruments		1,200,000	5,100,000
Redemption of perpetual capital instruments		(1,500,000)	(600,000)
Interest for the holders of perpetual capital instruments		(293,845)	(95,000)
Dividends paid to the equity holders of the Company		(2,436,339)	(2,132,947)
Dividends paid to non-controlling interests		(105,246)	(192,475)
Increase in amounts due to non-controlling interests	27	3,674,770	2,951,746
Dividends received		6,510	13,973
(Increase)/decrease in restricted cash pledged for borrowings		(1,534,226)	1,259,756
Net cash generated from financing activities		20,728,369	5,603,397
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		19,359,175	22,591,843
Effect of foreign exchange rate changes		(23,949)	25,264
Cash and cash equivalents at end of the year	20	28,537,441	19,359,175

The notes on pages 89 to 180 are an integral part of these consolidated financial statements.

1 General information

Shimao Property Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 29 October 2004 as an exempted company with limited liability under the Cayman Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company is principally engaged in investment holding. The principal activities of the Company and its subsidiaries (together, the “Group”) are property development, property investment and hotel operation in the People’s Republic of China (the “PRC”).

The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 5 July 2006.

These consolidated financial statements are presented in Renminbi, unless otherwise stated.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. They have been prepared under the historical cost convention, as modified by the revaluation of investment properties, biological assets, available-for-sale financial assets and derivative financial instruments which are carried at fair value.

The preparation of 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 4.

(i) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

- HKAS 7 (Amendments) “Statement of cash flows” introduces an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities, see note 36(b).
- HKAS 12 (Amendments) “Income taxes” on the recognition of deferred tax assets for unrealised losses clarifies how to account for deferred tax assets related to debt instruments measured at fair value.
- HKFRS 12 (Amendments) “Disclosure of interest in other entities” is part of the annual improvements to HKFRSs 2014-2016 cycle and clarifies that the disclosure requirement of HKFRS 12 is applicable to interest in entities classified as held for sale except for summarised financial information.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

2 Summary of significant accounting policies (CONTINUED)

2.1 Basis of preparation (continued)

(ii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for annual periods beginning on 1 January 2017 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKFRS 2 (Amendments)	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 4 (Amendments)	Insurance contracts "Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts"	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HK (IFRIC) 22	Foreign currency transactions and advance consideration	1 January 2018
HKAS 28 (Amendment)	Investments in associates and joint ventures	1 January 2018
HKAS 40 (Amendments)	Transfers of investment property	1 January 2018
HKFRS 16	Leases	1 January 2019
HK (IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group's assessment of the impact of these new standards and interpretations is set out below.

HKFRS 9 Financial Instruments

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

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

2 Summary of significant accounting policies (CONTINUED)

2.1 Basis of preparation (continued)

(ii) New standards and interpretations not yet adopted (continued)

HKFRS 9 Financial Instruments (continued)

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

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

HKFRS 15 Revenue from Contracts with Customers

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

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

- *Presentation of contract assets and liabilities*
Reclassification shall be made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15.
- *Accounting for revenue from sales of properties*
Currently, revenue from sales of properties is recognised when the risks and rewards of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales contracts and collectability of related receivables is reasonably assured. Under HKFRS 15, for those properties that have no alternative use to the Group due to contractual reasons and when the Group has an enforceable right to payment from the customers for performance completed to date, the Group would recognise revenue when the performance obligations are satisfied over time in accordance with the input method for measuring progress. In addition, the transaction price and amount of revenue from sales of properties will be adjusted when significant financing component relating to advance receipts exists in that contract.
- *Accounting for costs incurred to obtain a contract*
Following the adoption of HKFRS 15, stamp duty, sales commissions and other costs directly attributable to obtaining a contract, if recoverable, will be capitalised as contract assets.

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

2 Summary of significant accounting policies (CONTINUED)

2.1 Basis of preparation (continued)

(ii) New standards and interpretations not yet adopted (continued)

HKFRS 16 Leases

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

The Group is a lessee of certain offices and buildings, which are currently accounted for as operating leases under HKAS 17. HKFRS 16 provides new provisions for the accounting treatment of leases and will in future no longer allow lessees to recognise certain leases outside the consolidated statement of financial position. Instead, all non-current leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus, each lease will be mapped in the Group's consolidated statement of financial position. Short-term leases of less than twelve months and leases of low-value assets are exempted from the reporting obligation. The new standard will therefore result in an increase in right of use assets and an increase in payment obligation liabilities in the consolidated statement of financial position. In the statement of income, as a result, the operating lease expense under otherwise identical circumstances will decrease, while depreciation and amortisation and the interest expense will increase.

2.2 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 2.3).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iv) below), after initially being recognised at cost.

2 Summary of significant accounting policies (CONTINUED)

2.2 Principles of consolidation and equity accounting (continued)

(iii) Joint arrangements

Under HKFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has only joint ventures.

Interests in joint ventures are accounted for using the equity method (see (iv) below), after initially being recognised at cost in the consolidated balance sheet.

(iv) Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.9.

(v) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2 Summary of significant accounting policies (CONTINUED)

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.4 Segment reporting

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

2 Summary of significant accounting policies (CONTINUED)

2.5 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional currency and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the 'finance costs – net', except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

(iii) Group companies

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

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates; and
- All resulting exchange differences are recognised in other comprehensive income.

2.6 Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Buildings comprise hotel buildings and self-use buildings.

Assets under construction are stated at historical cost less impairment losses. Historical cost includes expenditure that is directly attributable to the development of the assets which comprises construction costs, borrowing costs and professional fees incurred during the development period. On completion, the assets are transferred to buildings within property and equipment.

No depreciation is provided for assets under construction. The carrying amount of an asset under construction is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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 costs are charged to the income statement during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their costs less their residual values and impairment loss over their estimated useful lives, as follows:

Buildings	50 years or the remaining lease period of the land use rights, whichever is shorter
Building improvements	10 to 20 years
Furniture and equipment	5 to 12 years
Jet plane and motor vehicles	10 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other income/other gains – net" in the income statement.

2 Summary of significant accounting policies (CONTINUED)

2.7 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the income statement as 'fair value gains/losses on investment properties'.

If an entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

If an investment property becomes owner-occupied or commences development with a view to sale, it is reclassified as property and equipment or as properties under development or completed properties held for sale, and the property's deemed cost for subsequent accounting is its fair value at the date of change in use.

If an item of property and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised as a revaluation of property and equipment in equity under HKAS 16. If a property commences an operating lease to another party, it is transferred from properties under development or completed properties held for sale to investment property, and any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

2.8 Intangible assets – goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries/associated companies/joint ventures at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies/joint ventures is included in investments in associated companies/joint ventures. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

2.9 Impairment of investments in subsidiaries, associated companies, joint ventures and non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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

2 Summary of significant accounting policies (CONTINUED)

2.10 Financial assets

(i) Classification

The Group classifies its financial assets in the following categories: loans and receivable and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'amounts due from related companies', 'trade and other receivables', 'restricted cash' and 'cash and cash equivalents' in the balance sheet.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the end of the reporting period.

(ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'other income/other gains – net'.

Dividends on available-for-sale equity instruments are recognised in the income statement as part of 'other income/other gains – net' when the Group's right to receive payments is established.

(iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2 Summary of significant accounting policies (CONTINUED)

2.10 Financial assets (continued)

(iv) Impairment of financial assets

- Loans and receivables

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan and receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

- Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

For derivative financial instruments do not qualify for hedge accounting, changes in fair value are recognised immediately in the consolidated income statement within 'other income/other gains – net'.

The Group has entered into transactions which will mature after 7 years, where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as "day one profit and loss", is not recognised immediately in the consolidated income statement.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the consolidated income statement without reversal of deferred day one profit and loss.

2 Summary of significant accounting policies (CONTINUED)

2.12 Properties under development

Properties under development are stated at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Development cost of properties comprises cost of land use rights, construction costs, borrowing costs and professional fees incurred during the development period. On completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

2.13 Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value.

Cost comprises development costs attributable to the unsold properties.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing marketing conditions.

2.14 Biological assets

Biological assets are measured at the end of each reporting period at their fair value less costs to sell, with any gain or loss recognised in profit or loss for the period in which it arises. Biological assets are current assets if they are to be sold within one year. The fair value of biological assets is determined based on market value and determined independently by professional valuers.

2.15 Trade and other receivables

Trade receivables are amounts due from customers for properties sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2.10(ii) for further information about the Group's accounting for trade receivables and Note 2.10(iv) for a description of the Group's impairment policies.

2.16 Cash and cash equivalents

Cash and cash equivalents include cash in hand, call deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.17 Share capital

Ordinary shares are classified as equity.

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

Where any group company purchases the Company's share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to equity holders of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.18 Perpetual capital instruments

Perpetual capital instruments with no contractual obligation to repay its principal or to pay any distribution are classified as part of equity.

2 Summary of significant accounting policies (CONTINUED)

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.21 Borrowings cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency and forward currency rates at the inception of the borrowings.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and are limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

2.22 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries, associated companies and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2 Summary of significant accounting policies (CONTINUED)

2.2 Current and deferred income tax (continued)

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associated companies and joint ventures, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.23 Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administered funds managed by the PRC government.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

(iii) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the shares/options is recognised as costs of assets or expenses to whichever the employee service is attributable.

Under the long term incentive scheme, the fair value of shares granted to eligible employees for their services is based on the share price at the grant date.

Under the share option scheme, the fair value of the options granted to the eligible employees for their services rendered is determined by reference to:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

2 Summary of significant accounting policies (CONTINUED)

2.23 Employee benefits (continued)

(iii) Equity-settled share-based payment transactions (continued)

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total cost/expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

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

When shares are vested, the Company issues shares from treasury shares. When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2.24 Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.25 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of properties and services in the ordinary course of the Group's activities. Revenue is shown, net of discounts and after eliminating sales with the Group companies. Revenue is recognised as follows:

(i) Sales of properties

Revenue from sales of properties is recognised when the risks and rewards of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement and collectibility of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated balance sheet under current liabilities.

(ii) Property management services

Revenue arising from property management services is recognised in the accounting period in which the services are rendered.

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(iv) Rental income

Rental income from properties letting under operating leases is recognised on a straight line basis over the lease terms.

2 Summary of significant accounting policies (CONTINUED)

2.25 Revenue recognition (continued)

(v) Hotel operation income

Hotel operation income which includes rooms rental, food and beverage sales and other ancillary services is recognised when the services are rendered.

(vi) Commission income

Commission income from concessionaire sales is recognised upon sales of goods by the relevant stores.

(vii) Dividend income

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

2.26 Government grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property and equipment and land use rights are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight line basis over the expected lives of the related assets.

2.27 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(i) The Group is the lessee other than operating lease of land use rights

Payments made under operating leases (net of any incentives received from the lessor), are charged to the income statement on a straight-line basis over the period of the lease.

(ii) The Group is the lessee under operating lease of land use rights

The Group made upfront payments to obtain operating leases of land use rights on which properties will be developed.

For land use rights to be developed for investment properties and properties for sale, the upfront payments are included in the cost of investment properties and properties under development or completed properties held for sale respectively.

For land use rights to be developed for pastoral station lease rights, the lease rights are shown at historical cost. Lease rights acquired in a business combination are recognised at fair value at the acquisition date. Certain lease rights that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and carried at cost less accumulated impairment losses.

For land use rights to be developed for hotel properties and self-use buildings, the upfront payments are separately recorded in balance sheet as 'land use rights', and amortised over the leasing periods on a straight line basis. The amortisation during the period of construction of the properties is capitalised as the cost of assets under construction.

(iii) The Group is the lessor

Assets leased out under operating leases are included in investment property in the consolidated balance sheet.

2.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors.

2 Summary of significant accounting policies (CONTINUED)

2.29 Insurance contracts

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk is a pre-existing risk transferred from the policyholder to the insurer, and is significant only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

The Group assesses at each reporting date whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in the consolidated income statement.

The Group regards its financial guarantee contracts provided in respect of mortgage facilities for certain property purchasers and financial guarantee contracts provided to its related parties as insurance contracts.

2.30 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries, associated companies and joint ventures to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the company's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgement. Any increase in the liability relating to guarantees is reported in the consolidated income statement within other operating expenses.

3 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group's businesses are principally conducted in RMB, except that certain receipts of proceeds from sales of properties, public share and notes offerings and certain bank borrowings are in other foreign currencies. The major non-RMB assets and liabilities are bank deposits and borrowings denominated in Hong Kong dollar ("HK dollar", or "HK\$") and the United States dollar ("US dollar", or "US\$").

The Company and all of its subsidiaries' functional currency is RMB, except the subsidiaries located in Australia which functional currency is AUD dollar, so that the fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's results of operations. For the year ended 2017, the Group manages its foreign exchange risk by using foreign currency option contracts. Such contracts have the economic effect of setting a strike rate for agreed amount of foreign currency amount. Under these contracts, the Group agrees with a third party to exchange, at specified intervals, the difference between strike and spot exchange rate amounts calculated by reference to the agreed notional amount.

As at 31 December 2017, if RMB had strengthened/weakened by 5%, against US dollar and HK dollar with all other variables held constant, post-tax profit for the year would have been RMB1,641,127,000 (2016: RMB1,065,767,000) higher/lower, mainly as a result of net foreign exchange gains/losses on translation of US dollar and HK dollar denominated bank deposits, senior notes and bank borrowings.

3 Financial risk management (CONTINUED)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Exposure

The Group's major exposure to foreign currency risk at the end of the reporting period, expressed in Renminbi, was as follows:

	31 December 2017				
	RMB RMB'000	USD RMB'000	HKD RMB'000	JPY RMB'000	AUD RMB'000
Borrowings	49,739,590	29,476,040	7,403,543	503,559	381,960

Amounts recognised in profit or loss and other comprehensive income

During the year, the following foreign-exchange related amounts were recognised in profit or loss:

	2017 RMB'000
<i>Amounts recognised in profit or loss</i>	
Exchange gain on foreign currency borrowings included in finance income	1,721,705

(ii) Price risk

The Group is exposed to equity securities price risk from the Group's available-for-sale financial assets which are publicly traded. The performance of the listed equity securities of the Group is closely monitored.

(iii) Cash flow and fair value interest rate risk

Except for cash deposits in the banks, the Group has no other significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, especially long-term borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The interest rate and terms of repayments of borrowings are disclosed in Note 24. The Group manages certain of its fair value interest rate risk by using fixed-to-floating interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from fixed rates to floating rates. As at 31 December 2017, the Group converted no borrowings from fixed rate to floating rate through interest rate swap (2016: nil) (Note 24).

The Group analyses its interest rate exposure taking into consideration of refinancing, and renewal of existing position. Based on the above consideration, the Group calculates the impact on profit and loss of a defined interest rate change.

The Group does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates as the interest rates of bank deposits are not expected to change significantly.

If interest rates on RMB denominated variable rate borrowings had been 100 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been RMB48,672,000 (2016: RMB111,045,000) lower/higher mainly as a result of higher/lower interest expenses on borrowings with variable rates as at 31 December 2017. If interest rates on US dollar and HK dollar denominated variable rate borrowings had been 100 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been RMB145,070,000 (2016: RMB44,059,000) lower/higher mainly as a result of higher/lower interest expenses on borrowings with variable rates as at 31 December 2017.

3 Financial risk management (CONTINUED)

(b) Credit risk

The Group has no concentrations of credit risk. The extent of the Group's credit exposure is represented by the aggregate balance of restricted cash, cash and cash equivalents, derivative financial instruments, trade and other receivables and amounts due from related parties.

Cash transactions are limited to high-credit-quality institutions. The table below shows the bank deposit balances of the major counterparties as at 31 December 2017.

Counterparty	Rating (Note)	As at 31 December	
		2017 RMB'000	2016 RMB'000
Bank A	A	3,418,239	2,183,976
Bank B	BBB+	3,015,840	1,600,346
Bank C	A	2,563,814	1,876,057
Bank D	A	2,196,197	1,573,133
Bank E	Baa2	2,010,818	2,519,347

Note: The source of credit rating is from Standard and Poor's or Moody's.

The Group has policies in place to ensure that sales of properties are made to buyers with an appropriate financial strength and appropriate percentage of down payment. Meanwhile, the Group has the right to cancel the sales contract in the event that the buyers default in payment, and put the underlying properties back to the market for re-sales. Therefore, the credit risk from sales of properties is limited. Other receivables mainly comprise bidding deposits for land use rights and prepaid tax with limited credit risk.

(c) Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its operation needs and commitments in respect of property projects.

Cash flow forecast is performed by management of the Group. Management monitors the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecast mainly takes into consideration the Group's operational cash flows, construction of investment properties and hotel projects, committed payments for land use rights and contracted development expenditures, the Group's debt financing plans, covenant compliance and internal balance sheet ratio targets.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

3 Financial risk management (CONTINUED)

(c) Liquidity risk (continued)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2017					
Borrowings and interest payments	21,157,516	17,006,158	48,923,336	14,415,530	101,502,540
Finance lease liabilities	135,475	–	–	–	135,475
Trade and other payables (excluding other taxes payables)	31,014,900	39,536	38,692	53,222	31,146,350
Amounts due to related parties	33,868,519	–	–	–	33,868,519
	86,176,410	17,045,694	48,962,028	14,468,752	166,652,884
As at 31 December 2016					
Borrowings and interest payments	20,723,802	8,800,975	35,357,031	13,910,404	78,792,212
Finance lease liabilities	200,824	200,586	38,004	–	439,414
Trade and other payables (excluding other taxes payables)	26,178,120	12,139	34,699	11,903	26,236,861
Amounts due to related parties	27,788,670	–	–	–	27,788,670
	74,891,416	9,013,700	35,429,734	13,922,307	133,257,157

Note: The interest on borrowings is calculated based on borrowings outstanding as at 31 December 2017 and 2016 without taking into account of future issues. Floating-rate interest is estimated using the applicable interest rate as at 31 December 2017 and 2016 respectively.

The amount of derivative financial instruments is measured at fair value at 31 December 2017 and 2016.

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, issue new shares or sell assets/subsidiaries to reduce debt.

3 Financial risk management (CONTINUED)

(e) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2017. See Note 7 for disclosures of the investment properties that are measured at fair value.

As at 31 December 2017	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Derivative financial instruments	–	–	1,190	1,190
Available-for-sale financial assets				
– equity securities	812,258	–	–	812,258
– investment in structured products issued by other financial institution	–	–	256,517	256,517

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016.

As at 31 December 2016	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Derivative financial instruments	–	–	90,199	90,199
Available-for-sale financial assets				
– equity securities	133,875	–	730,281	864,156
– investment in structured products issued by banks and other financial institution	–	–	3,077,100	3,077,100

Available-for-sale financial assets included in Level 1 are the equity securities traded in Shanghai Stock Exchange and Shenzhen Stock Exchange, the fair value of which is based on quoted market prices at the balance sheet date.

Derivative financial instruments included in Level 3 as at 31 December 2017 are eight currency option contracts with the Morgan Stanley & Co International PLC ("Morgan Stanley"), the fair value of which is determined using valuation models for which not all inputs are market observable prices or rates.

Derivative financial instruments included in Level 3 as at 31 December 2016 are six currency option contracts and four currency forward contracts with the Morgan Stanley, the fair value of which is determined using valuation models for which not all inputs are market observable prices or rates.

Available-for-sale financial assets included in Level 3 are the investment in structured products entered into with financial institutions, the fair value of which are determined using valuation model for which not all inputs are market observable rates.

3 Financial risk management (CONTINUED)

(e) Fair value estimation (continued)

As at 31 December 2016, available-for-sale financial assets included in Level 3 also included the restricted shares of Wanda Cinema Line Co., Ltd. ("Wanda Cinema Line") (Note 13) traded in Shenzhen Stock Exchange with one year lock-up period up to 3 January 2017, the fair value of which is determined using valuation model for which not all inputs are market observable rates. For the year ended 31 December 2017, the investment in Wanda Cinema Line transferred from Level 3 to Level 1. There were no other reclassifications of financial assets and no transfers between different levels.

Available-for-sale financial assets at fair value

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Opening balances of assets	3,941,256	1,134,470
Additions	1,080,000	3,100,000
Disposals	(3,945,961)	–
Fair value losses recognised in other comprehensive income	(6,520)	(293,214)
Closing balances of assets	1,068,775	3,941,256
Changes in unrealised losses, under 'Other comprehensive income'	(11,521)	(293,214)

Derivatives at fair value through profit or loss

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Opening balances of assets	90,199	41,782
Acquisition of currency options and forwards	47,304	13,714
(Loss)/gain recognised in the income statement	(86,979)	140,478
Settlements	(49,334)	(105,775)
Closing balances of assets	1,190	90,199
Changes in realised losses, under 'Other expenses'	(12,151)	–
Changes in unrealised losses, under 'Other expenses'	(74,828)	–
Changes in realised gains, under 'Other income/other gains – net'	–	63,993
Changes in unrealised gains, under 'Other income/other gains – net'	–	76,485

3 Financial risk management (CONTINUED)

(f) Financial instruments by category

Financial assets	As at 31 December	
	2017 RMB'000	2016 RMB'000
Other financial assets at amortised cost:		
– Trade and other receivables	6,776,507	6,949,095
– Amounts due from related parties	17,507,154	4,546,545
– Restricted cash	4,469,331	2,875,658
– Cash and cash equivalents	28,537,441	19,359,175
Assets at fair value through the profit and loss:		
– Derivative financial instruments	1,190	90,199
– Available-for-sale financial assets	1,068,775	3,941,256
Total	58,360,398	37,761,928
Financial liabilities	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Other financial liabilities at amortised cost:		
– Borrowings	87,504,692	66,943,512
– Finance lease liabilities	130,560	393,773
– Trade and other payables (excluding other taxes payable)	31,146,350	26,236,861
– Amounts due to related parties	33,868,519	27,788,670
Total	152,650,121	121,362,816

4 Critical accounting estimates and judgements

Estimates and judgements used in preparing the financial statements 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.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes and deferred income tax assets

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the provision for income tax. 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 differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(b) Land appreciation tax

The Group is subject to land appreciation tax in the PRC. However, the implementation and settlement of the tax varies among different tax jurisdictions in various cities of the PRC, and the Group has not finalised its land appreciation tax calculation and payments with any local tax authorities in the PRC. Accordingly, significant judgement is required in determining the amount of the land appreciation and its related tax. The Group recognised the land appreciation tax based on management's best estimates according to the understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the current income tax and deferred income tax provisions in the periods in which such tax is finalised with local tax authorities.

4 Critical accounting estimates and judgements (CONTINUED)

4.1 Critical accounting estimates and assumptions (continued)

(c) Impairment of goodwill

The Group tests at least annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on the higher of the fair value (less cost to sell) and value in use calculation of the underlying assets, mainly properties. The fair value of the properties, when applicable, is determined by independent valuers. For a listed cash-generating unit ("CGU"), the fair value less cost to sell is determined by the value in use. These valuations and calculations require the use of estimates.

(d) Fair value of investment properties

The fair value of investment properties is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in Note 7.

(e) Provision for properties under development and completed properties held for sale

The Group assesses the carrying amounts of properties under development and completed properties held for sale according to their net realisable value based on the realisability of these properties, taking into account costs to completion based on past experience and net sales value based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised. The assessment requires the use of judgement and estimates.

(f) Impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows to determine impairment loss. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective increase rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, an impairment loss may arise.

(g) Fair value of derivatives financial instruments

The Group's derivative financial instruments are interest rate swap contracts, currency option contracts and currency forward contracts entered into with commercial banks and Morgan Stanley, the fair value of which are determined using valuation models for which not all inputs are market observable prices or rates.

4.2 Critical judgements in applying the Group's accounting policy

(a) Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement.

Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

5 Segment information

The CODM has been identified as the management committee. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

As majority of the Group's consolidated revenue and results are attributable to the market in the PRC and most of the Group's consolidated assets are located in the PRC, therefore no geographical information is presented.

The CODM assesses the performance of the operating segments based on a measure of revenue and profit before tax. The information provided to the CODM is measured in a manner consistent with that in the financial statements.

5 Segment information (CONTINUED)

(a) Revenue

Turnover of the Group consists of the following revenue recognised during the year:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Sales of properties	66,795,945	56,196,877
Hotel operation income	1,707,902	1,466,201
Rental income from investment properties	680,007	710,357
Property management and other income	1,242,020	912,726
	70,425,874	59,286,161

(b) Segment information

Year ended 31 December 2017

	Property development and investment		Hotel operation RMB'000	Unallocated** RMB'000	Total RMB'000
	Shanghai Shimao Co., Ltd. ("Shanghai Shimao")* RMB'000	Others RMB'000			
Revenue					
– Sales of properties	17,381,966	49,413,979	–	–	66,795,945
– Hotel operation income	230,166	–	1,477,736	–	1,707,902
– Rental income from investment properties	577,168	102,839	–	–	680,007
– Property management and other income	477,470	764,550	–	–	1,242,020
Total revenue	18,666,770	50,281,368	1,477,736	–	70,425,874
Operating profit/(loss)	7,504,996	10,451,213	155,089	(432,583)	17,678,715
Finance income	115,264	1,931,037	751	12,928	2,059,980
Finance costs	(240,618)	(193,878)	(11,340)	(285,730)	(731,566)
Share of results of					
– Associated companies	(173)	167,766	–	–	167,593
– Joint ventures	66,984	(549,953)	–	–	(482,969)
Profit/(loss) before income tax	7,446,453	11,806,185	144,500	(705,385)	18,691,753
Income tax expense					(8,121,060)
Profit for the year					10,570,693
Other segment items are as follows:					
Capital and property development expenditure	23,991,044	42,072,845	653,397	–	66,717,286
Fair value gains/(losses) on investment properties	724,106	(44,622)	–	–	679,484
Fair value losses on derivative financial instruments	–	(86,979)	–	–	(86,979)
Depreciation	57,298	167,776	318,463	36,816	580,353
Amortisation of land use rights	9,611	5,795	69,585	–	84,991
Provision for impairment of receivables	41,706	13,681	782	–	56,169

* The Group owns an effective equity interest of 58.92% in Shanghai Shimao as at 31 December 2017

** Unallocated mainly represent corporate level activities

5 Segment information (CONTINUED)

(b) Segment information (continued)

The segment assets and liabilities at 31 December 2017 are as follows:

	Property development and investment			Total RMB'000
	Shanghai Shimao RMB'000	Others RMB'000	Hotel operation RMB'000	
Associated companies	200,239	1,144,779	–	1,345,018
Joint ventures	2,107,174	11,494,535	–	13,601,709
Intangible assets	1,709,730	–	130,928	1,840,658
Other segment assets	86,327,419	180,773,033	18,048,407	285,148,859
Total segment assets	90,344,562	193,412,347	18,179,335	301,936,244
Deferred income tax assets				2,523,663
Available-for-sale financial assets				1,068,775
Derivative financial instruments				1,190
Other assets				2,028,801
Total assets				307,558,673
Borrowings	17,149,556	35,133,395	1,091,500	53,374,451
Other segment liabilities	36,109,134	66,351,538	14,044,160	116,504,832
Total segment liabilities	53,258,690	101,484,933	15,135,660	169,879,283
Corporate borrowings				34,130,241
Deferred income tax liabilities				6,025,277
Other liabilities				777,075
Total liabilities				210,811,876

5 Segment information (CONTINUED)

(b) Segment information (continued)

Year ended 31 December 2016

	Property development and investment				
	Shanghai Shimao Co., Ltd. ("Shanghai Shimao")*		Hotel operation	Unallocated**	Total
	RMB'000	Others RMB'000	RMB'000	RMB'000	RMB'000
Revenue					
– Sales of properties	12,675,709	43,521,168	–	–	56,196,877
– Hotel operation income	125,671	–	1,340,530	–	1,466,201
– Rental income from investment properties	553,584	156,773	–	–	710,357
– Property management and other income	353,061	559,665	–	–	912,726
Total revenue	13,708,025	44,237,606	1,340,530	–	59,286,161
Operating profit/(loss)	4,832,976	10,443,296	133,226	(589,283)	14,820,215
Finance income	87,723	267,225	842	14,042	369,832
Finance costs	(148,120)	(416,390)	(1,269)	(979,999)	(1,545,778)
Share of results of					
– Associated companies	(84,754)	122,338	–	–	37,584
– Joint ventures	(87,885)	(398,090)	–	–	(485,975)
Profit/(loss) before income tax	4,599,940	10,018,379	132,799	(1,555,240)	13,195,878
Income tax expense					(5,685,493)
Profit for the year					7,510,385
Other segment items are as follows:					
Capital and property development expenditure	18,763,299	35,172,000	548,656	–	54,483,955
Fair value gains on investment properties	1,251,562	745,111	–	–	1,996,673
Fair value gain on derivative financial instruments	–	140,478	–	–	140,478
Write-off of intangible assets	–	26	–	–	26
Depreciation	45,710	96,111	254,436	33,892	430,149
Amortisation of land use rights	7,009	1,208	75,963	–	84,180
Provision for impairment of receivables	57,362	–	–	–	57,362

* The Group owns an effective equity interest of 58.92% in Shanghai Shimao as at 31 December 2016

** Unallocated mainly represent corporate level activities

5 Segment information (CONTINUED)

(b) Segment information (continued)

The segment assets and liabilities at 31 December 2016 are as follows:

	Property development and investment		Hotel operation RMB'000	Total RMB'000
	Shanghai Shimao RMB'000	Others RMB'000		
Associated companies	169	912,296	–	912,465
Joint ventures	2,066,922	7,116,503	–	9,183,425
Intangible assets	1,709,730	–	130,928	1,840,658
Other segment assets	73,525,911	151,943,817	16,148,122	241,617,850
Total segment assets	77,302,732	159,972,616	16,279,050	253,554,398
Deferred income tax assets				2,298,849
Available-for-sale financial assets				3,941,256
Derivative financial instruments				90,199
Other assets				2,018,303
Total assets				261,903,005
Borrowings	15,456,370	22,128,581	586,400	38,171,351
Other segment liabilities	30,981,287	56,813,299	12,564,720	100,359,306
Total segment liabilities	46,437,657	78,941,880	13,151,120	138,530,657
Corporate borrowings				28,772,161
Deferred income tax liabilities				5,666,533
Other liabilities				716,661
Total liabilities				173,686,012

Total segment assets consist primarily of property and equipment, investment properties, land use rights, other non-current assets, properties under development, completed properties held for sale, receivables, prepayments and cash balances. They also include goodwill recognised arising from acquisition of subsidiaries relating to respective segments. They exclude corporate assets, deferred income tax assets, available-for-sale financial assets and derivative financial instruments.

Total segment liabilities comprise operating liabilities. They exclude corporate liabilities, corporate borrowings and deferred income tax liabilities.

6 Property and equipment

	Assets under construction RMB'000	Hotel buildings and improvements RMB'000	Furniture and equipment RMB'000	Jet plane and motor vehicles RMB'000	Self-use buildings RMB'000	Total RMB'000
Cost						
At 1 January 2017	3,777,013	10,655,854	485,965	444,686	1,159,931	16,523,449
Additions	167,849	156,171	78,019	299,929	99,782	801,750
Acquisition of subsidiaries	-	-	78	-	-	78
Disposal of subsidiaries	(100,213)	-	(684)	-	-	(100,897)
Disposals	-	(18,765)	(38,184)	(10,627)	(3,285)	(70,861)
Transfer to properties under development and completed properties held for sale	(94,198)	-	-	-	-	(94,198)
Transfer upon completion	(1,704,180)	1,704,180	-	-	-	-
At 31 December 2017	2,046,271	12,497,440	525,194	733,988	1,256,428	17,059,321
Accumulated depreciation						
At 1 January 2017	-	2,464,775	233,472	173,165	158,379	3,029,791
Acquisition of subsidiaries	-	-	13	-	-	13
Charge for the year	-	315,557	76,653	126,864	61,279	580,353
Disposal of subsidiaries	-	-	(415)	-	-	(415)
Disposals	-	(17,047)	(37,198)	(7,069)	(3,021)	(64,335)
At 31 December 2017	-	2,763,285	272,525	292,960	216,637	3,545,407
Net book value						
At 31 December 2017	2,046,271	9,734,155	252,669	441,028	1,039,791	13,513,914

6 Property and equipment (CONTINUED)

	Assets under construction RMB'000	Hotel buildings and improvements RMB'000	Furniture and equipment RMB'000	Jet plane and motor vehicles RMB'000	Self-use buildings RMB'000	Total RMB'000
Cost						
At 1 January 2016	3,117,719	9,211,844	417,478	447,218	1,034,054	14,228,313
Additions	482,850	2,126	77,995	8,093	148,609	719,673
Acquisition of subsidiaries	–	–	25,734	2,744	–	28,478
Disposal of subsidiaries	–	–	(9,160)	(1,390)	–	(10,550)
Disposals	–	(8,775)	(26,082)	(11,979)	(22,732)	(69,568)
Transfer from properties under development and completed properties held for sale	687,975	939,128	–	–	–	1,627,103
Transfer upon completion	(511,531)	511,531	–	–	–	–
At 31 December 2016	3,777,013	10,655,854	485,965	444,686	1,159,931	16,523,449
Accumulated depreciation						
At 1 January 2016	–	2,182,843	195,259	156,593	121,674	2,656,369
Charge for the year	–	288,947	68,715	27,914	44,573	430,149
Disposal of subsidiaries	–	–	(5,785)	(1,183)	–	(6,968)
Disposals	–	(7,015)	(24,717)	(10,159)	(7,868)	(49,759)
At 31 December 2016	–	2,464,775	233,472	173,165	158,379	3,029,791
Net book value						
At 31 December 2016	3,777,013	8,191,079	252,493	271,521	1,001,552	13,493,658

Depreciation charge of RMB580,353,000 for the year ended 31 December 2017 (2016: RMB430,149,000) has been recorded in cost of sales and administrative expenses in the consolidated statement of comprehensive income (Note 29).

As at 31 December 2017, assets under construction and buildings of the Group with a total carrying amount of RMB1,738,927,000 (2016: RMB2,163,756,000) were pledged as collateral for certain borrowings of the Group (Note 24).

For the year ended 31 December 2017, the Group has capitalised borrowing costs amounting to RMB66,976,000 (2016: RMB188,943,000) in assets under construction. Borrowing costs were capitalised at the weighted average rate of 5.36% (2016: 5.67%).

Included in hotel buildings and improvements are assets under finance lease with a net book value of RMB130,560,000 as at 31 December 2017 (2016: RMB393,773,000)(Note 25).

7 Investment properties

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Opening balance at 1 January	32,270,913	30,025,297
Additions – Construction cost and others	1,085,750	3,196,416
Transfer to properties under development	–	(349,473)
Disposal	–	(2,598,000)
Fair value gains – net	679,484	1,996,673
Closing balance at 31 December	34,036,147	32,270,913

As at 31 December 2017, investment properties under construction of approximately RMB2,418,147,000 were measured at cost, because their constructions were at very early stage and related fair values were not reliably determinable (31 December 2016: approximately RMB2,204,273,000). These investment properties under development shall be measured at cost until either their fair values become reliably determinable or development is completed, whichever is earlier.

(a) Amounts recognised in profit and loss for investment properties

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Rental income	680,007	710,357
Direct operating expenses from properties that generated rental income (Note 29)	17,315	29,741
Direct operating expenses from properties that did not generate rental income (Note 29)	3,252	4,753

7 Investment properties (CONTINUED)

(b) Valuation

The following table analyses the investment properties carried at fair value, by valuation method and fair value hierarchy as at 31 December 2017 and 2016.

Description	Fair value measurements at 31 December 2017 using		
	Quoted prices in active markets for identical assets (Level 1) RMB'000	Significant other observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
Recurring fair value measurements Investment properties:			
– Commercial buildings-China	–	–	31,618,000

Description	Fair value measurements at 31 December 2016 using		
	Quoted prices in active markets for identical assets (Level 1) RMB'000	Significant other observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
Recurring fair value measurements Investment properties:			
– Commercial buildings-China	–	–	30,066,640

There were no transfers between Levels 1, 2 and 3 during the year.

Fair value measurements using significant unobservable inputs (Level 3)

	31 December 2017 Significant unobservable Inputs-Commercial buildings-China (Level 3)		
	Completed investment properties RMB'000	Investment properties under development RMB'000	Total RMB'000
Opening balance	21,316,400	8,750,240	30,066,640
Additions	113,289	758,587	871,876
Transfer from a completed investment property to an under development property (Note (a))	(5,830,000)	5,830,000	–
Net gains from fair value adjustment	592,311	87,173	679,484
Closing balance	16,192,000	15,426,000	31,618,000

7 Investment properties (CONTINUED)

(b) Valuation (continued)

Fair value measurements using significant unobservable inputs (Level 3) (continued)

	31 December 2016		
	Significant unobservable Inputs-Commercial buildings-China (Level 3)		
	Completed investment properties RMB'000	Investment properties under development RMB'000	Total RMB'000
Opening balance	21,562,800	6,890,015	28,452,815
Additions	184,019	2,031,133	2,215,152
Transfer from under development to completed investment properties	1,420,000	(1,420,000)	–
Disposal	(2,598,000)	–	(2,598,000)
Net gains from fair value adjustment	747,581	1,249,092	1,996,673
Closing balance	21,316,400	8,750,240	30,066,640

Note (a):

During the year ended 31 December 2017, Shanghai Shimao International Plaza transferred from completed investment property to under development investment property due to the commencement of its redevelopment, which fair value balance is RMB5,830,000,000.

Valuation processes of the Group

The Group's investment properties were valued at 31 December 2017 and 2016 by independent and professionally qualified valuers, Vigers Appraisal & Consulting Limited ("Vigers"), who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued. For all the investment properties, their current use equates to the best use.

The Group's finance department includes a team that review the valuations performed by the independent valuers for financial reporting purposes. Discussions of valuation processes and results are held between the financial department and the valuation team at least once every six months, in line with the Group's interim and annual reporting dates. This team reports directly to the executive directors(ED) and the audit committee (AC).

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report;
- Assesses property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuer.

Valuation techniques

For completed investment properties, the fair values were determined using term and reversionary method on the basis of capitalisation of net rental income derived from the existing tenancies and the reversionary value by reference to recent comparable sales transactions or capitalisation of comparable market rents in the relevant property market. The significant unobservable inputs adopted in the valuation included market prices, market rents, term and reversionary yields.

For investment properties under development, the valuation was determined using residual method by making reference to market capitalisation rates and recent comparable sales transactions on the assumption that the property had already been completed in accordance with latest development scheme at the valuation date by deducting the estimated costs to be incurred to complete the project and the developer's estimated profit margin.

There were no changes to the valuation techniques during the year.

7 Investment properties (CONTINUED)

(b) Valuation (continued)

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

Description	Fair value at 31 Dec 2017 (RMB'000)	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability- weighted average)	Relationship of unobservable inputs to fair value
Completed commercial buildings – China	16,192,000	Term and reversionary method	Market prices	RMB7,500-RMB75,821 per square meter (RMB23,310 per square meter)	The higher the market prices, the higher the fair value
			Market rents	RMB6-RMB378 per square meter (RMB87 per square meter)	The higher the market rents, the higher the fair value
			Term yields	4.75%-8.58% (6.18%)	The higher the term yields, the lower the fair value
			Reversionary yields	5.00%-8.83% (6.25%)	The higher the reversionary yields, the lower the fair value
Commercial buildings – China (under development)	15,426,000	Discounted cash flows with estimated costs to complete	Market prices	RMB19,146-RMB106,621 per square meter (RMB39,114 per square meter)	The higher the market prices, the higher the fair value
			Estimated costs to be incurred	RMB481-RMB12,169 per square meter (RMB5,932 per square meter)	The higher the estimated costs to be incurred, the lower the fair value
			Yields	4.35%-4.75% (4.68%)	The higher the capitalisation rate, the lower the fair value
Description	Fair value at 31 Dec 2016 (RMB'000)	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability- weighted average)	Relationship of unobservable inputs to fair value
Completed commercial buildings – China	21,316,400	Term and reversionary method	Market prices	RMB8,000-RMB128,125 per square meter (RMB36,001 per square meter)	The higher the market prices, the higher the fair value
			Market rents	RMB4-RMB363 per square meter (RMB101 per square meter)	The higher the market rents, the higher the fair value
			Term yields	4.50%-8.58% (6.05%)	The higher the term yields, the lower the fair value
			Reversionary yields	5.00%-8.83% (6.25%)	The higher the reversionary yields, the lower the fair value
Commercial buildings – China (under development)	8,750,240	Discounted cash flows with estimated costs to complete	Market prices	RMB19,146-RMB41,750 per square meter (RMB31,903 per square meter)	The higher the market prices, the higher the fair value
			Estimated costs to be incurred	RMB843-RMB14,422 per square meter (RMB8,210 per square meter)	The higher the estimated costs to be incurred, the lower the fair value
			Yields	4.75% (4.75%)	The higher the capitalisation rate, the lower the fair value

7 Investment properties (CONTINUED)

(b) Valuation (continued)

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

There are inter-relationships between unobservable inputs. For investment property under construction, increases in construction costs that enhance the property's features may result in an increase of future market prices. An increase in future market prices may be linked with higher costs. There is no indication that any slight increases/(decreases) in market prices in isolation would result in a significantly higher/(lower) fair value of the investment properties.

(c) Pledge

As at 31 December 2017, the Group's investment properties were held in the PRC on leases of between 10 to 50 years. Investment properties with a carrying amount of RMB8,585,682,000 (2016: RMB12,630,800,000) were pledged as collateral for the Group's borrowings (Note 24).

(d) Leasing arrangements

Some of the investment properties are leased to tenants under long term operating leases with rentals receivable monthly. Minimum lease rental receivable under non cancellable operating leases of investment properties are as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within one year	503,460	532,697
Later than one year but no later than 5 years	1,247,307	1,350,493
Later than 5 years	729,322	854,733
	2,480,089	2,737,923

8 Land use rights

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Land use rights relating to property and equipment under non-current assets		
Opening balance	8,218,571	7,921,887
Additions	58,254	395,200
Amortisation (Note 29)	(84,991)	(84,180)
Transfer to properties under development and completed properties held for sale	(15,313)	(14,336)
	8,176,521	8,218,571

Land use rights comprise cost of acquiring rights to use certain land, which are mostly located in the PRC, for assets under construction, hotel buildings, self-use buildings over fixed periods or over indefinite time.

As at 31 December 2017, land use rights of RMB1,723,941,000 (2016: RMB1,647,135,000) were pledged as collateral for the Group's borrowings (Note 24).

9 Intangible assets

Intangible assets comprise goodwill arising from acquisitions:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Opening balance	1,840,658	1,840,684
Write-off of goodwill recognised as expenses (Note 29)	–	(26)
Ending balance	1,840,658	1,840,658

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment. A segment level summary of the goodwill is presented below:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Property development and investment		
– Shanghai Shimao	1,709,730	1,709,730
Hotel operation	130,928	130,928
	1,840,658	1,840,658

The recoverable amounts of CGUs are determined based on the higher of fair values (less cost to sale) and value-in-use calculation.

In view of volatility of the PRC stock market and that the market value of Shanghai Shimao was lower than its net book value as at 31 December 2017 and 2016, goodwill of CGU – Property development and investment – Shanghai Shimao was tested for impairment using the higher of value-in-use by discounted cash flow projection and the fair value (equivalent to the market value) less costs to sell. The value-in-use calculation used pre-tax cash flow projections based on approved budgets covering an eight-year period. Cash flows beyond the eight-year period are extrapolated using the estimated long term growth rate of revenue.

As at 31 December 2017 and 2016, the fair values of hotel operation are valued by independent professionally qualified valuers who held a recognised relevant professional qualification and have recent experience in the locations and segments of the hotels valued.

For property development and investment – Shanghai Shimao, the key assumptions used in the value-in-use calculation in 2017 and 2016 are as follows:

	Year ended 31 December	
	2017	2016
Gross margin excluding land appreciation tax	35.5%	34.3%
Long term growth rate of revenue	3.0%	3.0%
Pre-tax discount rate	17.4%	17.4%

These assumptions have been used for the analysis of Shanghai Shimao CGU within the operating segment.

Gross margin is the average margin as a percentage of revenue over the eight-year forecast period. It is based on the current sales margin.

The long term growth rate of revenue used is consistent with the industry outlook. The discount rate used is pre-tax and reflects specific risks relating to the relevant operating segments.

10 Associated companies

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Share of net assets:		
Opening balance	912,465	898,275
Capital injections (Note (a))	582,791	9,606
Transfer to a subsidiary	–	(33,000)
Transfer to a joint venture (Note (a))	(317,831)	–
Share of results	167,593	37,584
Ending balance	1,345,018	912,465

Notes:

- (a) Capital injections include investment in new associates and additional injections in existing associates.

For the year ended 31 December 2017, the Group invested in four new associates with a total amount of RMB222,543,000.

In June 2017, the Group made additional capital injection into Guangzhou Li He Property Development Co., Ltd. ("Guangzhou Li He"), an existing associate, with amount of RMB280,000,000. After that, the Group acquired 6.67% equity interest of Guangzhou Li He at a consideration of RMB80,248,000, and gained joint control pursuant to the revised articles.

- (b) The Group's share of the results of its associated companies, all of which are unlisted, and the shares of aggregated assets and liabilities at year end, are as follows:

	Country of Incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net (loss)/ profit RMB'000	Interest held by the Group (%)
2017						
Guangzhou Chengyu Real Estate Development Co., Ltd. ("Guangzhou Cheng Yu")	PRC	4,579,655	(4,293,043)	284,215	40,387	50%
Chengdu Heng Yu Real Estate Development Co., Ltd. ("Chengdu Heng Yu")	PRC	2,793,184	(2,582,180)	73,070	(7,417)	33%
Nanjing Mingmao Property Co., Ltd. ("Nanjing Mingmao")	PRC	1,350,469	(637,286)	663,080	190,895	49%
Others	PRC	804,421	(670,202)	7,669	(56,272)	
		9,527,729	(8,182,711)	1,028,034	167,593	
2016						
Guangzhou Li He	PRC	4,581,499	(4,618,571)	600,033	(44,061)	20%
Guangzhou Cheng Yu	PRC	4,297,710	(4,051,316)	285,316	60,042	50%
Chengdu Heng Yu	PRC	2,282,235	(2,145,144)	–	(31,426)	33%
Nanjing Mingmao	PRC	1,568,972	(1,046,685)	832,586	139,148	49%
Others	PRC	107,858	(64,093)	7,804	(86,119)	
		12,838,274	(11,925,809)	1,725,739	37,584	

10 Associated companies (CONTINUED)

Details of the principal associated companies of the Group as at 31 December 2017 are set out in Note 37.

There is no individually material associated company of the Group as at 31 December 2017 and 2016.

The Group provided guarantees to associated companies for their borrowings from banks and other financial institutions amounting to RMB1,465,584,000 as at 31 December 2017 (2016: RMB3,130,560,000)(Note 38).

11 Joint ventures

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Share of net assets:		
Opening balance	9,183,425	9,784,898
Capital injections (Note (a))	3,892,079	663,310
Transfer from an associate (Note 10(a))	317,831	–
Transfer from subsidiaries (Note 40(b)(i)) and Note 40(c))	1,540,460	450,490
Transfer to a subsidiary (Note 40(a))	(844,117)	(1,229,298)
Disposal (Note (b))	(5,000)	–
Share of results	(482,969)	(485,975)
Ending balance	13,601,709	9,183,425

Notes:

- (a) Capital injections include investment in new joint ventures and additional injections in existing joint ventures.

In 2017, the Group set up thirteen joint ventures with total capital injections of RMB2,326,449,000. Pursuant to the articles of association, the Group has joint control over these entities.

The Group made additional capital injection into an existing joint venture with amount of RMB661,630,000. The Group's equity interests in the joint venture remained 50% after the capital injection.

The Group and certain third parties made capital injections into three then wholly-owned subsidiaries, of which the Group's share amounted to RMB904,000,000 in total. Pursuant to the revised articles of association, the Group and the third parties would jointly control the operation of these entities.

- (b) In September 2017, the Group disposed 5% out of 50% equity interest in Beijing Fuhua Yuntong Real Estate Development Co., Ltd. ("Beijing Fuhua Yuntong") at consideration of RMB5,000,000, the remaining interests of the Group retained as a joint venture. The disposal had resulted no gain or loss.

11 Joint ventures (CONTINUED)

The Group's share of the results of its joint ventures, all of which are unlisted, and the shares of aggregated assets and liabilities at year end, are as follows:

	Country of Incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net profit/ (loss) RMB'000	Interest held by the Group (%)
2017						
Guangzhou Li He	PRC	6,312,595	(6,152,791)	785,557	130,368	27%
Nantong Shimao New Era Real Estate Development Co., Ltd. ("Nantong New Era")	PRC	4,612,635	(4,371,782)	431,550	(102,846)	50%
Ningbo Shimao New Century Real Estate Development Co., Ltd. ("Ningbo New Century")	PRC	3,926,358	(3,623,539)	626,152	(213,143)	50%
Hangzhou Maoguo Yueying Property Co., Ltd.	PRC	3,630,345	(2,881,386)	–	(1,041)	50%
Beijing Maorui Property Co., Ltd.	PRC	3,518,164	(3,500,038)	–	(1,873)	40%
Ningbo Shimao New Miles Property Co., Ltd. ("Ningbo New Miles")	PRC	3,492,017	(3,399,710)	(11,646)	(193,575)	50%
Tianjin Jinnan Xincheng Real Estate Development Co., Ltd. ("Tianjin Jinnan")	PRC	3,342,435	(2,304,485)	637,487	132,443	25%
Shanghai Shimao Sheshan Huiying Property Co., Ltd. ("Shanghai Sheshan Huiying")	PRC	2,783,670	(2,529,582)	195,206	(107,368)	50%
Ningbo Shimao New City Real Estate Development Co., Ltd.	PRC	2,613,133	(2,631,985)	126,871	(45,063)	50%
Suzhou Shimao Industrial Park Lakeside Property Co., Ltd. ("Suzhou Industrial Lakeside")	PRC	2,361,245	(1,672,389)	–	(299)	49%
Foshan New Era Real Estate Development Co., Ltd.	PRC	2,194,944	(2,190,119)	–	(176)	50%
Changsha Shimao Investment Co., Ltd. ("Changsha Investment")	PRC	1,891,021	(1,406,829)	–	(1,350)	49%
Suzhou Shimao Industrial Park Century Property Co., Ltd. ("Suzhou Industrial Century")	PRC	1,819,995	(1,122,141)	22,649	(5,087)	40%
Wuxi Shimao Real Estate Development & Construction Co., Ltd. ("Wuxi Shimao")	PRC	1,739,693	(1,809,841)	317,957	(32,098)	50%
Xiamen Taishi Real Estate Development Co., Ltd. ("Xiamen Taishi")	PRC	1,591,059	(1,592,913)	–	(5,887)	49%
Nanchang Shimao New Development Property Co., Ltd. ("Nanchang New Development")	PRC	1,569,154	(1,255,216)	37,329	(103,475)	50%

11 Joint ventures (CONTINUED)

	Country of Incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net profit/ (loss) RMB'000	Interest held by the Group (%)
Nantong Shimao New Miles Real Estate Development Co., Ltd. ("Nantong New Miles")	PRC	1,534,739	(1,037,666)	–	(2,474)	50%
Changsha Shimao Real Estate Co., Ltd. ("Changsha Real Estate")	PRC	1,533,802	(1,239,571)	16,573	(120,576)	50%
Beijing Yuan Chuang Xing Mao Property Co., Ltd.	PRC	1,488,702	(1,459,067)	–	(365)	30%
Shanghai Chunri Property Co., Ltd. ("Shanghai Chunri")	PRC	1,473,454	(1,470,088)	–	(980)	45%
Fujian Shimao Ruiying Real Estate Development Co., Ltd. ("Fujian Ruiying")	PRC	1,391,318	(892,957)	–	(1,086)	50%
Suzhou Fuyuan Property Co., Ltd.	PRC	1,378,413	(1,366,164)	–	1	25%
Gu'an Maoyue Real Estate Development Co., Ltd. ("Gu'an Maoyue")	PRC	1,322,258	(1,076,986)	–	–	50%
Shanghai Haomiao Enterprises Management Co., Ltd. ("Shanghai Haomiao")	PRC	1,219,612	(920,382)	(505)	(770)	50%
Fast Right Investments Limited ("Fast Right")	Hong Kong	1,214,524	(107,901)	568,440	207,531	50%
Hangzhou Rongda Qiyun Property Co., Ltd.	PRC	1,162,732	(1,121,961)	–	(8,921)	50%
Xiamen Mujia Business Factoring Co., Ltd. ("Xiamen Mujia")	PRC	1,107,851	(984,303)	16,530	(30,268)	50%
Guangzhou Xin He Real Estate Co., Ltd.	PRC	1,068,877	(1,042,438)	–	(6,561)	33%
Kingtron Enterprises Limited ("Kingtron")	Hong Kong	976,261	(164,322)	201,835	12,684	50%
Beijing Fuhua Yuntong	PRC	946,577	(898,280)	–	(169)	45%
Tianjin He'an Investment Co., Ltd.	PRC	902,092	(900,000)	–	(2)	25%
Ningbo Dingfeng Real Estate Development Co., Ltd. ("Ningbo Dingfeng")	PRC	889,416	(786,661)	554,319	74,711	40%
Foshan Ganying Property Co., Ltd.	PRC	868,226	(818,243)	–	(17)	50%
Others	PRC	13,475,475	(9,019,347)	407,915	(55,237)	
		81,352,792	(67,751,083)	4,934,219	(482,969)	

11 Joint ventures (CONTINUED)

	Country of Incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net profit/ (loss) RMB'000	Interest held by the Group (%)
2016						
Nantong New Era	PRC	5,810,152	(5,466,452)	87,720	4,045	50%
Ningbo New Miles	PRC	3,873,200	(3,668,473)	(32,595)	(29,183)	50%
Changsha Real Estate	PRC	3,207,782	(2,792,975)	501,370	2,808	50%
Shanghai Sheshan Huiying	PRC	2,777,945	(2,416,489)	365,253	(8,046)	50%
Suzhou Industrial Lakeside	PRC	2,649,289	(1,960,134)	–	(295)	49%
Tianjin Jinnan	PRC	2,496,133	(1,594,866)	424,834	11,606	25%
Wuhan Shimao Tianrun Property Co., Ltd. ("Wuhan Tianrun")	PRC	2,313,149	(1,468,193)	–	(4,788)	50%
Ningbo New Century	PRC	1,863,411	(1,347,449)	619,940	(145,626)	50%
Changsha Investment	PRC	1,746,215	(1,260,546)	–	(970)	49%
Wuxi Shimao	PRC	1,741,551	(1,865,760)	30,958	(105,424)	50%
Suzhou Industrial Century	PRC	1,731,908	(1,020,774)	925,655	(79,016)	40%
Ningbo Shimao Carnival Property Co., Ltd.	PRC	1,617,582	(1,425,824)	–	(60)	50%
Xiamen Taishi	PRC	1,463,487	(1,459,454)	–	(886)	49%
Shanghai Chunri	PRC	1,415,073	(1,411,266)	–	(592)	45%
Fast Right	Hong Kong	1,251,466	(345,914)	296,353	7,532	50%
Nanchang New development	PRC	1,178,716	(761,304)	31,744	(78,016)	50%
Xiamen Mujia	PRC	1,197,613	(943,797)	22,165	(3,816)	50%
Ningbo Dingfeng	PRC	997,140	(957,273)	–	(5,790)	40%
Kingtron	Hong Kong	789,953	(442,640)	300,255	(3,554)	50%
Others	PRC	5,341,045	(3,669,802)	337,816	(45,904)	
		45,462,810	(36,279,385)	3,911,468	(485,975)	

Details of the principal joint ventures of the Group as at 31 December 2017 are set out in Note 37.

There is no individually material joint venture of the Group as at 31 December 2017 and 2016.

The Group provided guarantees to joint ventures for their borrowings from banks amounting to RMB5,493,201,000 as at 31 December 2017 (2016: RMB3,167,689,000) (Note 38).

12 Amounts due from related parties

Advances to related parties included in non-current assets is to finance their acquisition of land use rights. The Group's intention is that the advances will only be recalled when the related companies have surplus cash.

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Included in non-current assets		
– Joint ventures	786,712	1,298,879
– Associated companies	684,766	624,352
	1,471,478	1,923,231

Advances to related parties included in current assets is the disbursement to finance their operating activities which will be repaid within one year.

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Included in current assets		
– Company with common directors	160	160
– Associated companies	49,218	2,195,889
– Joint ventures	15,986,298	427,265
	16,035,676	2,623,314

These advances are interest free, unsecured and have no fixed repayment terms. The carrying amounts of amounts due from related companies approximate their fair values.

13 Available-for-sale financial assets

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Opening balance	3,941,256	1,204,470
Additions	1,080,000	3,100,000
Disposals	(3,945,961)	(70,000)
Fair value losses recognised in other comprehensive income	(6,520)	(293,214)
Ending balance	1,068,775	3,941,256

Available-for-sale financial assets include the following:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Available-for-sale financial assets included in non-current assets		
Listed securities:		
– Equity securities		
– without lock-up period (Note(a))	812,258	133,875
– with lock-up period (Note(b))	–	730,281
Investment in structured products issued by other financial institution (Note (c))	256,517	77,100
	1,068,775	941,256
Available-for-sale financial assets included in current assets		
Investment in structured products issued by banks (Note(d))	–	3,000,000
	–	3,000,000

Notes:

- Listed securities without lock-up period represented investment in listed equity securities in the PRC which were stated at market value based on the quoted price.
- Listed securities with lock-up period as at 31 December 2016 represented 1.15% equity interest (13,506,212 shares) in Wanda Cinema Line, a company listed on the Shenzhen Stock Exchange. As at 3 January 2017, upon the end of lock-up period, it is recorded in listed securities without lock-up period.
- Investment in structured products issued by other financial institution represented a combination of financial products with a floating interest measured at fair value. The fair value of these assets are determined using valuation model for which not all inputs are observable and is within Level 3 of the fair value hierarchy (Note 3).
- Investment in structured products issued by banks represented a combination of financial products with a floating interest measured at fair value. The fair value of these assets are determined using valuation model for which not all inputs are observable and is within Level 3 of the fair value hierarchy (Note 3).

14 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes relate to the same tax authority. The net deferred income tax balances after offsetting are as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Deferred income tax assets		
– to be recovered after more than 12 months	1,617,501	1,472,132
– to be recovered within 12 months	906,162	826,717
	2,523,663	2,298,849
Deferred income tax liabilities		
– to be recovered after more than 12 months	5,530,880	5,200,327
– to be recovered within 12 months	494,397	466,206
	6,025,277	5,666,533
Net deferred income tax liabilities	3,501,614	3,367,684

The movement on the net deferred income tax account is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Opening balance	3,367,684	3,487,844
Disposal of subsidiaries	41,329	(456,651)
Charged to the consolidated income statement (Note 33)	95,481	409,794
Credited to other comprehensive income	(2,880)	(73,303)
Ending balance	3,501,614	3,367,684

Movement in deferred income tax assets and liabilities for the year ended 31 December 2017, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Provision for land appreciation tax deductible for future income tax clearance	Unrealized profit on intra-group transaction	Tax loss and temporary difference on recognition of expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	1,071,733	235,668	716,544	2,023,945
Credited/(charged) to the consolidated income statement	123,953	(278)	180,642	304,317
Disposal of subsidiaries	(27,146)	–	–	(27,146)
At 31 December 2016	1,168,540	235,390	897,186	2,301,116
Credited to the consolidated income statement	88,458	8,702	166,716	263,876
Disposal of subsidiaries	(41,329)	–	–	(41,329)
At 31 December 2017	1,215,669	244,092	1,063,902	2,523,663

14 Deferred income tax (CONTINUED)

Deferred income tax liabilities

	Fair value gains on investment properties RMB'000	Fair value adjustments on assets and liabilities upon acquisition of subsidiaries RMB'000	Withholding tax on the retained earnings of certain subsidiaries RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	3,864,346	979,712	493,731	174,000	5,511,789
Charged/(credited) to the consolidated income statement	459,200	80,538	225,000	(50,627)	714,111
Credited to other comprehensive income	–	(73,303)	–	–	(73,303)
Disposal of subsidiaries	(351,685)	(132,112)	–	–	(483,797)
At 31 December 2016	3,971,861	854,835	718,731	123,373	5,668,800
Charged/(credited) to the consolidated income statement	169,871	35,486	197,500	(43,500)	359,357
Credited to other comprehensive income	–	(2,880)	–	–	(2,880)
At 31 December 2017	4,141,732	887,441	916,231	79,873	6,025,277

Deferred income tax arose as a result of differences in timing of recognising certain revenue, costs and expenses between the tax based financial statements and the HKFRS financial statements. This constitutes temporary differences, being the differences between the carrying amounts of the assets or liabilities in the consolidated balance sheets and their tax bases in accordance with HKAS 12.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB55,206,000 (2016: RMB54,710,000) in respect of accumulated losses amounting to RMB220,822,000 (2016: RMB218,840,000) that can be carried forward against future taxable income. Losses amounting to RMB15,066,000, RMB14,198,000, RMB26,381,000, RMB80,878,000 and RMB84,299,000, will expire in 2018, 2019, 2020, 2021 and 2022 respectively.

Deferred income tax liabilities have not been recognised for the withholding tax and other taxes on the unremitted earnings of certain subsidiaries in the PRC. Such amounts will be reinvested according to the distribution and reinvestment plan of the Group.

15 Other non-current assets

Other non-current assets mainly represent the prepayments for acquisition of land use rights and equity interests and receivables of financial lease.

As at 31 December 2017, the Group has made prepayments of RMB366,173,000 (2016: RMB969,639,000) for certain land use rights for the purpose to develop hotel buildings, self-used buildings and investment properties, the ownership certificates of which have not been obtained. As at 31 December 2017, prepayments of RMB21,605,517,000 (31 December 2016: RMB17,950,915,000) were related to the lands for the purpose to develop properties for sale, and are included in current assets, 'prepayments for acquisition of land use rights'.

As at 31 December 2017, the Group made prepayments of RMB6,279,589,000 (31 December 2016: RMB660,000,000) for acquisition of certain equity interests.

16 Inventories

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Inventories comprise:		
Properties under development (Note (a))	114,888,153	101,568,030
Completed properties held for sale (Note (b))	18,347,894	18,476,834
Biological assets (Note (c))	318,657	298,133
	133,554,704	120,342,997

Notes:

(a) Properties under development

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Properties under development comprise:		
Land use rights and leasehold land	72,593,988	64,553,124
Construction costs and capitalised expenditures	33,169,578	28,344,102
Interests capitalised	9,124,587	8,670,804
	114,888,153	101,568,030

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Land use rights and leasehold land		
Held on leases of:		
Over 50 years	59,638,432	53,209,635
Between 10 to 50 years	12,955,556	11,343,489
	72,593,988	64,553,124

As at 31 December 2017, leasehold land of RMB5,764,953,000 was located in Hong Kong. The other properties under development are all located in the PRC. The relevant land use rights are on leases of 40 to 70 years.

As at 31 December 2017, properties under development of approximately RMB17,112,567,000 (2016: RMB26,992,358,000) were pledged as collateral for the Group's borrowings (Note 24).

The capitalisation rate of borrowings was 5.36% for the year ended 31 December 2017 (2016: 5.67%).

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Properties under development:		
Expected to be completed and available for sale after more than 12 months	30,008,606	27,463,204
Expected to be completed and available for sale within 12 months	84,879,547	74,104,826
	114,888,153	101,568,030

16 Inventories (CONTINUED)

Notes: (continued)

(b) Completed properties held for sale

All completed properties held for sale are located in the PRC. Included in completed properties held for sale are land use rights as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Outside Hong Kong, held on leases of:		
Over 50 years	5,908,123	5,759,229
Between 10 to 50 years	1,004,476	972,861
	6,912,599	6,732,090

As at 31 December 2017, completed properties held for sale of RMB16,016,288,000 (2016: RMB6,581,322,000) were pledged as collateral for the Group's borrowings (Note 24).

For the year ended 31 December 2017, the Group recognised impairment losses of RMB116,619,000 (2016: RMB173,295,000) on completed properties held for sale (Note 29).

(c) Biological assets

Biological assets represent cattle which is stated at fair value measured by market approach method, using significant other observable input (Level 2).

17 Trade and other receivables and prepayments

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Bidding deposits for land use rights (Note (a))	5,228,769	10,434,729
Trade receivables (Note (c))	4,705,330	4,623,286
Prepaid business tax on pre-sale proceeds	585,423	1,039,979
Prepayments for construction costs	2,464,299	1,832,733
Loan receivables (Note (b))	528,788	–
Other receivables	2,071,177	2,325,809
	15,583,786	20,256,536

Notes:

- (a) Bidding deposits for land use rights mainly represented deposits the Group placed with various municipal governments for the participation in land auctions. These deposits will be deducted against the total land costs to be paid if the Group wins the bid at the auction. If the Group does not win the bid, the deposits will be fully refunded.
- (b) As at 31 December 2017, loan receivables of RMB528,788,000 (31 December 2016: nil) were secured by the pledge of certain properties, notes receivable or credit guaranty of borrowers, bearing interest rate at a range from 4.8% to 14.4% per annum and repayable within one year.
- (c) Trade receivables mainly arise from sales of properties. Consideration in respect of properties sold is paid in accordance with the terms of the related sales and purchase agreements. The ageing analysis of trade receivables at the respective balance sheet dates is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 90 days	3,924,761	3,714,529
Over 90 days and within 365 days	456,499	527,704
Over 365 days	324,070	381,053
	4,705,330	4,623,286

As at 31 December 2017, receivables arising from sales of properties was approximately RMB4,416,410,000 (2016: RMB4,380,004,000).

17 Trade and other receivables and prepayments (CONTINUED)

Trade receivables are analysed as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Fully performing under credit terms	3,940,556	3,690,031
Past due but not impaired	764,774	933,255
	4,705,330	4,623,286

The ageing analysis of trade receivables past due but not impaired is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 90 days	274,784	375,422
Over 90 days and within 365 days	247,975	225,516
Over 365 days	242,015	332,317
	764,774	933,255

As the Group normally holds the title of the properties sold as collateral before collection of the outstanding balances and passing the titles to the purchasers, the Directors consider that the past due trade receivables would be recovered and no provision was made against past due receivables as at 31 December 2017 and 2016.

As at 31 December 2017, provision for impairment of other receivables was approximately RMB244,920,000 (2016: RMB188,751,000).

As at 31 December 2017 and 2016, the fair value of trade receivables, bidding deposits for land use rights, and other receivables of the Group approximate their carrying amounts, as the impact of discounting is not significant.

As at 31 December 2017 and 2016, trade and other receivables of the Group were mainly denominated in RMB.

18 Prepayment for acquisition of land use rights

Prepayments for acquisition of land use rights are related to acquisition of land for property development purposes, the ownership certificates of which have not been obtained as at 31 December 2017.

19 Derivative financial instruments

The movement of derivative financial instruments assets is as follows:

Derivatives at fair value through profit or loss

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Opening balances of assets	90,199	41,782
Acquisition of currency options and forwards (Note(a))	47,304	13,714
Fair value (losses)/gains – currency options and forwards (Note(a))	(86,979)	76,485
Fair value gains – interest swap contract (Note(b))	–	63,993
Settlement of currency forwards (Note(a))	(49,334)	–
Settlement of interest swap contract (Note(b))	–	(105,775)
Closing balances of assets	1,190	90,199

19 Derivative financial instruments (CONTINUED)

Derivatives at fair value through profit or loss (continued)

Notes:

- (a) For the year ended 31 December 2017, the Group has entered into two currency option contracts with an aggregate notional amount of US\$200,000,000 and settled four currency forward contracts with an aggregate notional amount of US\$400,000,000. For the year ended 31 December 2016, the Group has entered into six currency option contracts with an aggregate notional amount of US\$150,000,000 and four currency forward contracts with an aggregate notional amount of US\$400,000,000. These contracts do not qualify for hedge accounting, and are classified as derivative financial instruments held for trading as current assets or current liabilities. Fair value losses of RMB86,979,000 have been recognised in "Other expenses" (2016: fair value gains of RMB76,485,000 in "Other income/other gains – net") (Note 28).
- (b) On 6 January 2011, the Group entered into two interest rate swap contracts with an aggregate notional amount of US\$300,000,000 (the "Swap Contracts"). The Swap Contracts took effect from 3 August 2010, and will terminate on 3 August 2017. Pursuant to the Swap Contracts, the Group receives interest at a fixed rate of 9.65%, and pays interest at floating rate with reference to the HSBC Vol-Budgeted Dynamic Term Premium Index as published on Bloomberg but subject to a ceiling of 12.1%, semi-annually on 3 February and 3 August commencing from 3 February 2011 and up to termination.

The Swap Contracts do not qualify for hedge accounting, and are classified as derivative financial instruments held for trading as current assets or current liabilities, with any fair value changes recognised in the consolidated income statement.

There is a day-one loss of approximately RMB125,306,000 arising from the Swap Contracts, which is deferred and amortised in the consolidation income statement based on the straight line method within the effective lives of the Swap Contracts. The Group has terminated the Swap Contracts during the year ended 31 December 2016 and has recorded the fair value gain of the Swap Contracts amounting to RMB63,993,000 which has been recognised in "Other income/other gains – net" (Note 28).

20 Cash and cash equivalents and restricted cash

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Bank balances and cash		
– denominated in RMB	32,226,999	21,821,916
– denominated in US dollar	347,097	237,847
– denominated in HK dollar	408,853	175,070
– denominated in AUD dollar	23,823	–
Less: Restricted cash	(4,469,331)	(2,875,658)
	28,537,441	19,359,175

As at 31 December 2017, the Group's restricted cash comprised approximately RMB648,079,000 (2016: RMB588,632,000) of guarantee deposits for the benefit of mortgage loan facilities granted by the banks to the purchasers of the Group's properties (Note 38) and approximately RMB3,821,252,000 (2016: RMB2,287,026,000) of deposits pledged as collateral for the Group's borrowings (Note 24).

The conversion of RMB denominated balances into foreign currencies and the remittance of the foreign currencies out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

The effective interest rate on bank deposits as at 31 December 2017 was 0.34% (2016: 0.34%).

21 Share capital

(a) Details of share capital of the Company are as follows:

	Par value	Number of shares	Nominal value of ordinary shares	
	HK\$	'000	HK\$'000	Equivalent to RMB'000
Authorised:				
At 31 December 2017 and 2016	0.1	5,000,000	500,000	
Issued and fully paid:				
At 31 December 2015		3,472,572	347,257	356,275
Cancellation of shares (Note)		(73,191)	(7,319)	(7,411)
At 31 December 2016		3,399,381	339,938	348,864
Cancellation of shares (Note)		(12,359)	(1,236)	–
At 31 December 2017		3,387,022	338,702	348,864

Note:

The Company acquired its own shares through purchases on the Hong Kong Stock Exchange from 4 July 2016 till 30 December 2016, among which 73,191,000 shares have been cancelled during the year ended 31 December 2016 and 12,359,000 shares have been cancelled during the year ended 31 December 2017. The total amount paid to acquire the shares was HK\$874,917,561, equivalent to RMB758,374,125 and has been deducted from share premium within shareholders' equity during the year ended 31 December 2016 (Note 22).

(b) Employee Stock Ownership Plan

As 31 December 2017, pursuant to the employee stock ownership plan ("Employee Stock Ownership Plan") that was approved by Shanghai Shimao's shareholders on 9 May 2017 and will expire at the end of the 60-month period from the date of grant, a total of 2,313,168 ordinary shares of Shanghai Shimao had been bought back from the secondary market at the total cost of RMB11,096,000. The purpose of the Employee Stock Ownership Plan is to provide the participants with an opportunity to hold a personal stake in Shanghai Shimao so as to motivate such participants and to enhance performance and efficiency. In May 2017, options for a total of 2,313,168 ordinary shares of Shanghai Shimao under this plan were granted to Shanghai Shimao's eligible employees with no exercise price or fulfilment of any condition. The exercise of the granted options is subject to a restriction of 12 months from the date of 3 July 2017. As at 31 December 2017, no shares were vested or lapsed.

(c) Share Award Scheme

The Company's board of directors (the "Board") approved and adopted the Share Award Scheme on 30 December 2011 (the "Share Scheme"). Unless terminated earlier by the Board, the Share Scheme is valid and effective for a term of 8 years commencing on 30 December 2011. The maximum number of shares to be awarded must not exceed 34,659,508 shares (i.e. 1% of issued shares of the Company as at 30 December 2011).

The Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each employee determined by the Board from time to time), select such employee(s) for participation in the Share Scheme and determine the number of awarded shares.

21 Share capital (CONTINUED)

(c) Share Award Scheme (continued)

A Trust was constituted to manage the Share Scheme, and a wholly-owned subsidiary of the Company incorporated in the British Virgin Islands was designated as Trustee. Up to 31 December 2017, the Trust purchased 30,156,500 ordinary shares from market, totaling HK\$401,997,000 (equivalent to RMB328,637,000), of which 25,953,153 shares were granted to eligible employees according to the Share Scheme. Up to 31 December 2017, among the shares granted, 15,858,565 shares vested, 2,195,002 shares lapsed.

The granted shares were subject to several vesting conditions, including 1 year service and non-market performance appraisal before vesting date. The shares granted are held by the Trust before being transferred to the employees when vesting conditions are fully met.

Movements in the number of unvested shares granted during the period are as follows:

	Number of unvested shares granted	
	Year ended 31 December	
	2017	2016
Unvested shares, beginning	3,517,115	4,730,902
Granted	7,899,586	3,517,115
Vested	(3,061,698)	(4,022,474)
Lapsed	(455,417)	(708,428)
Unvested shares, ending	7,899,586	3,517,115

The weighted average fair value of the unvested shares granted during the year ended 31 December 2017 is HK\$134,292,962, equivalent to RMB112,256,830 (2016: HK\$37,492,446, equivalent to RMB31,263,451).

(d) Reconciliation of the number of shares outstanding was as follows:

	Year ended 31 December	
	2017	2016
	'000	'000
Shares issued	3,387,022	3,399,381
Treasury shares for Share Scheme	(14,298)	(11,273)
Treasury shares for cancellation	–	(12,358)
Shares outstanding	3,372,724	3,375,750

(e) Material non-controlling interests

There is no individual material non-controlling interests of the Group as at 31 December 2017 and 2016.

22 Reserves

	Merger reserve RMB'000 (Note)	Share premium RMB'000	Translation reserve RMB'000	Share-based compensation reserve RMB'000	Statutory reserve RMB'000	Capital redemption reserve RMB'000	Available- for-sale financial assets RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2016	(185,787)	2,240,789	-	189,945	1,866,540	4,949	6,891	45,682,058	49,805,385
Profit for the year	-	-	-	-	-	-	-	5,171,855	5,171,855
Fair value losses on available-for-sale financial assets, net of tax	-	-	-	-	-	-	(129,572)	-	(129,572)
Translation reserves	-	-	(36)	-	-	-	-	-	(36)
Changes in ownership interests in subsidiaries without change of control	-	116,685	-	-	-	-	-	-	116,685
Equity-settled share-based payment									
- Value of employee services	-	-	-	50,005	-	-	-	-	50,005
- Purchase of shares	-	(37,198)	-	-	-	-	-	-	(37,198)
- Dividends received	-	7,518	-	-	-	-	-	-	7,518
Buy-back of shares									
- Purchase of shares (Note 21(a))	-	(758,374)	-	-	-	-	-	-	(758,374)
- Dividends received	-	6,455	-	-	-	-	-	-	6,455
- Cancellation of shares (Note 21(a))	-	7,411	-	-	-	-	-	-	7,411
2015 final dividend paid	-	(1,187,203)	-	-	-	-	-	-	(1,187,203)
2016 interim dividend paid	-	-	-	-	-	-	-	(945,744)	(945,744)
Balance at 31 December 2016	(185,787)	396,083	(36)	239,950	1,866,540	4,949	(122,681)	49,908,169	52,107,187
Representing:									
Proposed final dividend								1,318,310	1,318,310
Others								48,589,859	50,788,877
								49,908,169	52,107,187

22 Reserves (CONTINUED)

	Merger reserve RMB'000 (Note)	Share premium RMB'000	Translation reserve RMB'000	Share-based compensation reserve RMB'000	Statutory reserve RMB'000	Capital redemption reserve RMB'000	Available- for-sale financial assets RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2017	(185,787)	396,083	(36)	239,950	1,866,540	4,949	(122,681)	49,908,169	52,107,187
Profit for the year	-	-	-	-	-	-	-	7,840,494	7,840,494
Fair value losses on available-for-sale financial assets, net of tax	-	-	-	-	-	-	(5,091)	-	(5,091)
Translation reserves	-	-	(101)	-	-	-	-	-	(101)
Changes in ownership interests in subsidiaries without change of control	-	(236,983)	-	-	-	-	-	-	(236,983)
Equity-settled share-based payment									
- Value of employee services	-	-	-	75,470	-	-	-	-	75,470
- Purchase of shares	-	(65,328)	-	-	-	-	-	-	(65,328)
- Dividends received	-	6,510	-	-	-	-	-	-	6,510
Profit appropriations	-	-	-	-	717,825	-	-	(717,825)	-
2016 final dividend paid	-	-	-	-	-	-	-	(1,293,423)	(1,293,423)
2017 interim dividend paid	-	-	-	-	-	-	-	(1,142,916)	(1,142,916)
Balance at 31 December 2017	(185,787)	100,282	(137)	315,420	2,584,365	4,949	(127,772)	54,594,499	57,285,819
Representing:									
Proposed final dividend								1,638,371	1,638,371
Others								52,956,128	55,647,448
								54,594,499	57,285,819

Note:

Merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiary purchased pursuant to the reorganisation and the nominal value of the shares of the Company issued in exchange effected prior to the listing of the Company's shares on the Stock Exchange in 2006.

23 Perpetual capital instruments

In the year ended 31 December 2016, certain subsidiaries of the Group issued several subordinated unlisted perpetual capital instruments with the total aggregate net proceeds of RMB5,100,000,000, of which RMB600,000,000 was redeemed in the same year.

In the year ended 31 December 2017, certain subsidiaries of the Group issued several subordinated unlisted perpetual capital instruments with the total aggregate net proceeds of RMB1,200,000,000 and in the same year, subordinated unlisted perpetual capital instruments totaling RMB1,500,000,000 were redeemed.

All perpetual capital instruments are unsecured and non-guaranteed. There is no maturity of the instruments and the payments of distribution can be deferred at the issuers' discretion, and there is no limit as to the number of times of deferral of distribution. The perpetual capital instruments are redeemable. When the issuers elect to declare dividends to their shareholders, they shall make distribution to the holders of perpetual capital instruments at the distribution rate as defined in the subscription agreement.

24 Borrowings

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Borrowings included in non-current liabilities		
Long-term bank borrowings		
– secured by assets (Note (i))	8,423,809	8,525,901
– secured by shares of subsidiary guarantors (Note (ii))	3,874,787	–
– unsecured	10,302,801	2,692,844
Long-term borrowings from other financial institutions		
– secured by assets (Note (i))	9,452,000	2,452,000
– unsecured	1,274,152	1,094,466
Senior notes – secured (Note (iii))	17,536,872	17,266,917
Medium-term notes – unsecured (Note(iv))	4,300,000	5,000,000
Long-term bonds (Note(v))	14,864,781	10,864,781
Domestic corporate bonds (Note(vi))	8,765,903	9,705,620
	78,795,105	57,602,529
Less: Portion of long-term bank borrowings due within one year	(2,072,967)	(544,125)
Portion of long-term borrowings from other financial institutions due within one year	(463,425)	(344,466)
Portion of senior notes due within one year	(3,899,387)	(5,525,735)
Portion of medium-term notes due within one year	(3,000,000)	(2,000,000)
Portion of domestic corporate bonds due within one year	(49,854)	–
Amounts due within one year	(9,485,633)	(8,414,326)
	69,309,472	49,188,203
Borrowings included in current liabilities		
Short-term bank borrowings		
– secured by assets (Notes (i))	5,000	3,188,983
– unsecured	7,153,587	2,105,000
Short-term borrowings from other financial institutions		
– secured by assets (Note (i))	–	46,000
– secured by shares of a listed subsidiary (Note (vii))	800,000	–
– unsecured	751,000	1,000
Short-term bonds – unsecured (Note(viii))	–	4,000,000
Current portion of non-current borrowings	9,485,633	8,414,326
	18,195,220	17,755,309

24 Borrowings (CONTINUED)

Notes:

(i) As at 31 December 2017, the Group's total secured bank borrowings and borrowings from other financial institutions of RMB17,880,809,000 (2016: RMB14,212,884,000) were secured by its assets under construction and buildings (Note 6), investment properties (Note 7), land use rights (Note 8), properties under development (Note 16(a)), completed properties held for sale (Note 16(b)) and restricted cash (Note 20), of which RMB132,500,000 (2016: RMB147,500,000) were further guaranteed by Mr. Hui Wing Mau.

(ii) On 7 December 2017, the Company entered into a multi-currency loan facility agreement with a syndicate of 12 banks. Pursuant to the agreement, the Company obtained 4-year syndicated loan facilities, including a US\$680,000,000 facility and a HK\$5,890,000,000 facility at a floating rate of interest, 15% out of the loan principal will mature in 2019, 35% will mature in 2020 and 50% will mature in 2021. The loan facilities were guaranteed by certain subsidiaries of the Group, and secured by pledge of the shares of these subsidiary guarantors. As at 31 December 2017, US\$300,000,000 and HK\$2,598,529,411 have been drawn down.

(iii) On 14 January 2013, the Company issued senior notes with total principal of US\$800,000,000 at a fixed interest rate of 6.625% due on 14 January 2020, which was early redeemed on 6 February 2017. The total redemption price paid was US\$829,738,880 including 103.3125% of the principal amount of the senior note, being US\$826,500,000, plus accrued and unpaid interest of US\$3,238,880 to the redemption date.

On 22 January 2014, the Company issued senior notes with total principal of US\$600,000,000 at a fixed interest rate of 8.125% due on 22 January 2021, which was early redeemed on 22 January 2018. The total redemption price paid was US\$648,753,000 including 104.063% of the principal amount of the senior notes, being US\$624,378,000, plus accrued and unpaid interest of US\$24,375,000 to the redemption date.

On 10 February 2015, the Company issued senior notes with total principal of US\$800,000,000 at a fixed interest rate of 8.375% due on 10 February 2022. On 17 March 2015, the Company issued senior notes with total principal of US\$300,000,000 at a fixed interest rate 8.375% due on 10 February 2022.

On 22 June 2017 and 28 June 2017, the Company issued senior notes with total principal of US\$450,000,000 and US\$150,000,000 at a fixed interest rate of 4.750% due on 3 July 2022. On 4 December 2017, the Company issued senior notes with total principal of US\$400,000,000 at a fixed interest rate of 4.750% due on 11 December 2022.

The Company may at its option redeem these notes, in whole or in part, by certain dates based on the terms of these notes. The notes are senior obligations guaranteed by certain restricted offshore subsidiaries and secured by a pledge of the shares of these offshore restricted subsidiaries.

(iv) On 15 April 2014, Shanghai Shimao issued medium-term notes with total principal of RMB1,000,000,000 at a fixed interest rate of 8.37% due on 15 April 2017, which was redeemed on 12 April 2017. The total redemption price paid was RMB1,083,700,000 including the principal amount of RMB1,000,000,000 plus accrued and unpaid interest of RMB83,700,000 to the redemption date.

On 22 August 2014, Shanghai Shimao issued medium-term notes with total principal of RMB1,000,000,000 at a fixed interest rate of 7.60% due on 22 August 2017, which was redeemed on 22 August 2017. The total redemption price paid was RMB1,076,000,000 including the principal amount of RMB1,000,000,000 plus accrued and unpaid interest of RMB76,000,000 to the redemption date.

On 10 March 2015, Shanghai Shimao issued medium-term notes with total principal of RMB1,500,000,000 at a fixed interest rate of 6.08% due on 10 March 2018.

On 10 July 2015, Shanghai Shimao issued medium-term notes with total principal of RMB1,500,000,000 at a fixed interest rate of 5.35% due on 10 July 2018.

On 6 January 2017, Shanghai Shimao issued the first phase of medium-term notes with total principal of RMB1,300,000,000 at a fixed interest rate of 4.50% due on 5 January 2020.

24 Borrowings (CONTINUED)

Notes: (continued)

- (v) On 18 September 2015, Shanghai Shimao Jianshe Co., Ltd. ("Shimao Jianshe") issued long-term bonds in an aggregate principal amount of RMB6,000,000,000 at a fixed interest rate of 3.90% per annum, which will mature on 18 September 2020.

On 15 October 2015, Shimao Jianshe issued long-term bonds with total principal of RMB1,400,000,000 at a fixed interest rate of 4.15% due on 15 October 2022.

On 24 March 2016, Shanghai Shimao issued long-term bonds in amount of RMB2,000,000,000 at a fixed interest rate of 3.29% per annum due on 23 March 2019. On 12 July 2016, Shanghai Shimao issued long-term bonds in amount of RMB1,500,000,000 at a fixed interest rate of 3.38% per annum due on 12 July 2019.

On 11 July 2017, Shanghai Shimao issued the first phase of long-term bonds with aggregate principal amount of RMB2,500,000,000 at a fixed interest rate of 4.95% due on 12 July 2020. On 20 September 2017, Shanghai Shimao issued the second phase of long-term bonds with aggregate principal amount of RMB1,000,000,000 at a fixed interest rate of 5.15% due on 21 September 2020. On 17 October 2017, Shanghai Shimao issued the third phase of long-term bonds with aggregate principal amount of RMB500,000,000 at a fixed interest rate of 5.19% due on 18 October 2020.

- (vi) On 14 January 2016, 3 August 2016, 22 September 2016, 22 September 2016 and 22 September 2016, Shimao Property Holdings Limited issued domestic corporate bonds with total principal of RMB4,000,000,000, RMB540,000,000, RMB1,000,000,000, RMB3,000,000,000 and RMB1,200,000,000 at a fixed interest rate of 4.8%, 4.3%, 3.7%, 3.9% and 4.1% due on 14 January 2021, 3 August 2021, 22 September 2018, 22 September 2019 and 22 September 2021.

On 18 September 2017, the Company early redeemed domestic corporate bonds with total principal of RMB950,000,000 at a fixed interest rate of 3.7%, which was originally due on 22 September 2018. The total redemption price paid was RMB985,150,000 including the principal amount of RMB950,000,000 plus accrued and unpaid interest of RMB35,150,000 to the redemption date.

- (vii) As at 31 December 2017, 330,000,000 shares of Shanghai Shimao (31 December 2016: NIL) have been pledged for total borrowings from other financial institutions of RMB800,000,000 (31 December 2016: NIL) for Group companies.

- (viii) On 12 January 2016, Shanghai Shimao issued short-term financing bonds with total principal of RMB2,000,000,000 at a fixed interest rate of 3.00% due on 12 January 2017. On 20 October 2016, Shanghai Shimao issued short-term financing bonds with total principal of RMB2,000,000,000 at a fixed interest rate of 2.98% due on 20 October 2017. As at 31 December 2017, Shanghai Shimao repaid all short-term notes.

The interest-bearing bank borrowings, including the term loans repayable on demand, are carried at amortised cost.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity, whichever is the earlier date, is as follows:

	6 months or less	6-12 months	1-5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings included in non-current liabilities:					
At 31 December 2017	14,009,777	385,000	2,621,880	52,292,815	69,309,472
At 31 December 2016	27,563,118	2,504,048	4,129,961	14,991,076	49,188,203
Borrowings included in current liabilities:					
At 31 December 2017	8,900,435	9,294,785	–	–	18,195,220
At 31 December 2016	15,465,850	2,289,459	–	–	17,755,309

24 Borrowings (CONTINUED)

The maturity of the borrowings included in non-current liabilities is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Bank borrowings:		
Between 1 and 2 years	6,820,634	2,809,603
Between 2 and 5 years	10,513,188	3,920,509
Over 5 years	3,194,608	3,944,508
Borrowings from other financial institution:		
Between 1 and 2 years	1,250,727	480,000
Between 2 and 5 years	2,820,000	2,722,000
Over 5 years	6,192,000	–
Domestic corporate bonds:		
Between 1 and 2 years	2,991,214	–
Between 2 and 5 years	5,724,836	9,705,620
Senior notes:		
Between 2 and 5 years	13,637,484	4,129,902
Over 5 years	–	7,611,280
Medium-term notes:		
Between 1 and 2 years	–	3,000,000
Between 2 and 5 years	1,300,000	–
Long-term bonds:		
Between 1 and 2 years	3,500,000	–
Between 2 and 5 years	11,364,781	9,500,000
Over 5 years	–	1,364,781
	69,309,472	49,188,203

The weighted average effective interest rates at the balance sheet date were as follows:

	As at 31 December	
	2017	2016
Bank borrowings – RMB	4.83%	5.30%
Bank borrowings – US dollar	3.58%	3.71%
Bank borrowings – HK dollar	2.64%	2.19%
Bank borrowings – JPY yen	1.06%	1.10%
Bank borrowings – AUD dollar	3.26%	3.06%
Senior notes – US dollar	6.98%	7.76%
Borrowings from other financial institutions – RMB	5.77%	5.70%

24 Borrowings (CONTINUED)

The carrying amounts and fair value of non-current borrowings are as follows:

	Carrying amounts	Fair values
	RMB'000	RMB'000
Fixed rate portion – senior notes	13,637,485	14,194,491
Fixed rate portion – others	38,655,330	38,251,167
Floating rate portion	17,016,657	17,090,056
At 31 December 2017	69,309,472	69,535,714
Fixed rate portion – senior notes	11,741,182	12,956,634
Fixed rate portion – others	23,570,401	23,495,048
Floating rate portion	13,876,620	13,874,116
At 31 December 2016	49,188,203	50,325,798

The fair values of current borrowings approximated their carrying amount, as the impact of discounting is not significant. The fair values of senior notes recorded in non-current liabilities as at 31 December 2017 amounting to RMB14,194,491,000 (2016: RMB12,956,634,000) were calculated using the market price of the traded senior notes on the balance sheet date. The fair values of senior notes are within level 1 of the fair value hierarchy.

The fair values of other non-current borrowings are based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial institution with substantially the same terms and characteristics at the respective balance sheet dates. The fair values of other non-current borrowings are within level 3 of the fair value hierarchy.

The carrying amounts of the borrowings are denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	49,739,590	44,376,073
HK dollar	7,403,543	4,405,911
US dollar	29,476,040	17,266,917
AUD dollar	381,960	376,178
JPY yen	503,559	518,433
	87,504,692	66,943,512

25 Finance lease liabilities

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Included in current liabilities	130,560	171,420
Included in non-current liabilities	–	222,353

Finance lease liabilities for hotel facilities are repayable by installment in three to five years and have effective interest rates from 5.81% to 7.56% as at 31 December 2017 and 2016 (Note 6). During the year ended 31 December 2017, the Group had terminated one of the leases in advance and repaid all the installments and finance charges.

As at 31 December 2017 and 2016, finance lease liabilities of the Group were denominated in RMB.

The maturity of the finance lease liabilities included in non-current liabilities is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Finance lease liabilities		
Between 1 and 2 years	–	184,565
Between 2 and 5 years	–	37,788
	–	222,353

26 Trade and other payables

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade payables (Note (a))	26,403,178	21,220,985
Other taxes payable	2,377,915	1,070,753
Accrued expenses	1,837,207	1,670,331
Other payables (Note (b))	2,905,965	3,345,545
	33,524,265	27,307,614

26 Trade and other payables (CONTINUED)

Notes:

(a) As at 31 December 2017, the aging analysis of the trade payables based on invoice date is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 90 days	26,172,019	20,371,754
Over 90 days and within 1 year	231,159	849,231
	26,403,178	21,220,985

(b) Other payables comprise:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Deposits received from customers	1,640,761	1,235,158
Payables for equity interest	–	1,045,000
Fees collected from customers on behalf of government agencies	169,812	144,105
Deposits from constructors	421,689	356,455
Rental deposits from tenants and hotel customers	536,331	463,658
Others	137,372	101,169
	2,905,965	3,345,545

27 Amounts due to related parties

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
– Associated companies	3,016,217	2,470,252
– Joint ventures	18,156,243	16,297,129
– Non-controlling interests	12,696,059	9,021,289
	33,868,519	27,788,670

Amounts due to non-controlling interests represent funds injected by the non-controlling shareholders for the development of properties. Amounts due to associated companies and joint ventures mainly represent advanced proceeds received for purchasing construction materials and other operating and financing activities.

The balances due to related parties are unsecured, interest-free and have no fixed repayment terms.

28 Other income/other gains – net

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Net gains on disposal and deemed disposal of subsidiaries with loss of control (Note 40(b) and 40(c))	119,947	476,406
Gain on derivative financial instruments (Note 19)	–	140,478
Gain on investment in structured products issued by banks	85,847	93,523
Gain on disposal of investment in structured products issued by other financial institution	5,001	–
Government grants	161,417	75,699
Gain on acquisition of subsidiaries (Note 40(a))	34,183	12,497
Penalty income (Note)	96,662	23,084
Others	42,038	17,098
	545,095	838,785

Note:

Penalty income represents penalty received from property buyers who do not execute sales and purchase agreements on property sales or from tenants who early terminate tenancy agreements.

29 Expenses by nature

Expenses included in cost of sales, selling and marketing costs, administrative expenses and other operating expenses are analysed as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Cost of properties sold and others	47,599,906	40,410,295
Including: interests capitalised	3,909,953	3,606,000
land and construction	42,643,381	35,929,000
Business taxes and other levies on sales of properties (Note (a))	403,492	1,635,370
Staff costs – including directors' emoluments (Note 31(a))	1,723,224	1,603,436
Advertising, promotion and commission costs	1,143,431	1,050,473
Direct expenses arising from hotel operation	972,396	857,339
Corporate and office expenses	698,376	610,932
Depreciation (Note 6)	580,353	430,149
Amortisation of land use rights (Note 8)	84,991	84,180
Operating lease rental expenses	82,771	77,072
Direct expenses arising from investment properties (Note 7(a))	20,567	34,494
Charitable donations	267,873	123,697
Auditor's remuneration	13,530	13,350
– Audit services	8,850	9,400
– Non-audit services	4,680	3,950
Provision for impairment of receivables	56,169	57,362
Provision of impairment losses on completed properties held for sale (Note 16(b))	116,619	173,295
Write-off of intangible assets (Note 9)	–	26
Loss on derivative financial instruments (Note 19)	86,979	–
Other expenses	121,061	139,934
Total cost of sales, selling and marketing costs, administrative expenses and other operating expenses	53,971,738	47,301,404

Note:

(a) The Group's companies incorporated in the PRC were subject to business taxes of 5% on their revenue from sales of properties before 1 May 2016. From then onwards, they are subject to value added tax and the applicable tax rates are 11% and 5%.

30 Finance costs – net

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Finance income		
– interest income on short-term bank deposits	(581,511)	(369,832)
– net foreign exchange gain	(1,478,469)	–
Finance income	(2,059,980)	(369,832)
Interest on bank borrowings		
– wholly repayable within five years	3,645,507	2,759,925
– not wholly repayable within five years	147,218	256,384
Interest on senior notes		
– wholly repayable within five years	604,807	692,607
– not wholly repayable within five years	736,484	614,752
Interest on borrowings from other financial institutions		
– wholly repayable within five years	563,721	1,052,686
Interest on finance lease liabilities		
– wholly repayable within five years	36,256	49,214
	5,733,993	5,425,568
Less: interest capitalised	(5,002,427)	(4,743,492)
Net foreign exchange loss	–	1,435,225
Less: foreign exchange loss capitalised	–	(571,523)
Finance costs	731,566	1,545,778
Net finance (income)/costs	(1,328,414)	1,175,946

31 Employee benefit expense

(a) Staff costs (including directors' emoluments) comprise:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Wages and salaries	1,302,725	1,203,572
Pension costs – statutory pension (Note (b))	141,598	133,154
Other allowances and benefits	278,901	266,710
	1,723,224	1,603,436

31 Employee benefit expense (CONTINUED)

(b) Pensions-defined contribution plans

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on a certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also participates in a pension scheme under the rules and regulations of the MPF Scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2016: five) directors whose emoluments are reflected in Note 32.

32 Benefits and interests of directors

(a) Directors' emoluments

The remuneration of each of the directors of the Company for the year ended 31 December 2017 is set out as follows:

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:

Name of directors	Fees RMB'000	Salary RMB'000	Bonuses RMB'000	Housing allowance RMB'000	Employer's contribution to a retirement benefit scheme	Employee share award schemes	Total RMB'000
					RMB'000	RMB'000	
Executive directors							
Mr. Hui Wing Mau	-	5,015	836	-	-	-	5,851
Mr. Hui Sai Tan, Jason	-	5,530	-	-	15	734	6,279
Ms. Tang Fei	-	1,822	170	60	99	1,193	3,344
Mr. Liao Lujiang (Note 1)	-	2,150	2,150	144	99	534	5,077
Mr. Kan Naigui (Note 1)	-	1,369	-	90	74	1,144	2,677
Non-executive director							
Mr. Liu Sai Fei	-	2,646	525	-	-	-	3,171
Independent non-executive directors							
Ms. Kan Lai Kuen, Alice	301	-	-	-	-	-	301
Mr. Lu Hong Bing	301	-	-	-	-	-	301
Mr. Lam Ching Kam	301	-	-	-	-	-	301
	903	18,532	3,681	294	287	3,605	27,302

Note 1:

Mr. Liao Lujiang resigned as an executive director with effect from 31 January 2018.

Mr. Kan Naigui resigned as an executive director with effect from 30 September 2017.

32 Benefits and interests of directors (CONTINUED)

(a) Directors' emoluments (continued)

The remuneration of each of the directors of the Company for the year ended 31 December 2016 is set out as follows:

Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking:

Name of directors	Fees RMB'000	Salary RMB'000	Bonuses RMB'000	Housing allowance RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Employee share award schemes RMB'000	Total RMB'000
Executive directors							
Mr. Hui Wing Mau	-	5,367	447	-	-	-	5,814
Mr. Hui Sai Tan, Jason	-	5,109	585	-	16	258	5,968
Ms. Tang Fei	-	1,275	1,697	60	94	558	3,684
Mr. Liao Lujiang	-	1,546	1,739	144	94	374	3,897
Mr. Xu Younong (Note 1)	-	131	-	-	8	-	139
Mr. Kan Naigui (Note 1)	-	1,341	1,700	120	94	535	3,790
Non-executive director							
Mr. Liu Sai Fei	-	2,160	1,428	-	-	754	4,342
Independent non-executive directors							
Ms. Kan Lai Kuen, Alice	322	-	-	-	-	-	322
Mr. Lu Hong Bing	322	-	-	-	-	-	322
Mr. Lam Ching Kam	322	-	-	-	-	-	322
	966	16,929	7,596	324	306	2,479	28,600

Note 1:

Mr. Xu younong retired as an executive director with effect from 15 January 2016 and Mr. Kan Naigui was appointed as an executive director with effect from 15 January 2016.

(b) Directors' retirement benefits

None of the directors received or will receive any retirement benefits during the year.

(c) Directors' termination benefits

None of the directors received or will receive any termination benefits during the year.

(d) Consideration provided to third parties for making available directors' services

The Group did not pay consideration to any third parties for making available directors' services during the year.

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings were made available in favour of directors, bodies corporate controlled by and entities connected with directors subsisted at the end of the year or at any time during the year.

(f) Directors' material interests in transactions, arrangements or contracts

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

33 Income tax expense

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Current income tax		
– PRC enterprise income tax	3,939,299	3,232,300
– PRC withholding income tax	73,648	31,544
– PRC land appreciation tax	4,012,632	2,011,855
	8,025,579	5,275,699
Deferred income tax (Note 14)		
– PRC enterprise income tax	(102,019)	184,794
– PRC withholding income tax	197,500	225,000
	8,121,060	5,685,493

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the companies within the Group as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit before income tax	18,691,753	13,195,878
Add: Share of results of associated companies and joint ventures	315,376	448,391
Land appreciation tax	(4,012,632)	(2,011,855)
	14,994,497	11,632,414
Calculated at PRC enterprise income tax rate of 25% (2016:25%)	3,748,624	2,908,104
Effect of different tax rates in other countries or regions	(1,880)	(24,823)
Expenses not deductible for income tax purposes (Note (a))	315,208	598,365
Income not subject to tax (Note (b))	(379,225)	(70,952)
Tax losses not recognised	154,553	6,400
PRC enterprise income tax charge	3,837,280	3,417,094
PRC land appreciation tax charge	4,012,632	2,011,855
Current income tax – PRC withholding income tax	73,648	31,544
Deferred income tax – PRC withholding income tax	197,500	225,000
	8,121,060	5,685,493

Notes:

- (a) Expenses and losses not deductible for income tax purposes mainly resulted from net exchange losses and expenses incurred by the Company and its subsidiaries established in the British Virgin Islands which are not deductible for tax purpose.
- (b) Income not subject to tax arose mainly from interest income and net exchange gains earned by companies incorporated in Cayman Islands, the British Virgin Islands and Hong Kong.

33 Income tax expense (CONTINUED)**Hong Kong profits tax**

No Hong Kong profits tax has been provided for as the Group has no assessable profit in Hong Kong for the year ended 31 December 2017 (2016: Nil).

PRC enterprise income tax

PRC enterprise income tax is provided for at 25% of the profits for the PRC statutory financial reporting purpose, adjusted for those items which are not assessable or deductible for the PRC enterprise income tax purposes.

PRC land appreciation tax

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

PRC withholding income tax

According to the new Enterprise Income Tax Law of the PRC, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong according to the tax treaty arrangements between the PRC and Hong Kong.

Gain on disposal of an investment in the PRC by overseas holding companies and intra-group charges to the PRC subsidiaries by overseas subsidiaries may also be subject to withholding tax of 10%.

34 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2017	2016
Profit attributable to the equity holders of the Company (RMB'000)	7,840,494	5,171,855
Weighted average number of ordinary shares in issue (thousands)	3,373,739	3,433,844
Basic earnings per share (RMB cents)	232.4	150.6

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue for the potential dilutive effect caused by the shares granted under the Share Scheme assuming they were exercised.

	Year ended 31 December	
	2017	2016
Profit attributable to the equity holders of the Company (RMB'000)	7,840,494	5,171,855
Weighted average number of ordinary shares in issue (thousands)	3,373,739	3,433,844
Adjustment for shares granted under Share Scheme (thousands)	6,561	4,470
Weighted average number of ordinary shares for diluted earnings per share (thousands)	3,380,300	3,438,314
Diluted earnings per share (RMB cents)	231.9	150.4

35 Dividends

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Interim dividends paid of HK40 cents (2016: HK32 cents) per ordinary share (Note(a))	1,152,807	954,318
Proposed final dividends of HK60 cents (2016: HK44 cents) per ordinary share (Note (b))	1,638,371	1,318,310
Other dividends paid	105,246	192,475
	2,896,424	2,465,103

Notes:

- (a) An interim dividend in respect of the six months ended 30 June 2017 of HK40 cents per ordinary share, amounting to HK\$1,354,809,000 (equivalent to RMB1,152,807,000) was paid in September 2017 (2016: RMB954,318,000).
- (b) At a meeting held on 27 March 2018, the directors proposed a final dividend of HK60 cents per ordinary share for the year ended 31 December 2017. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation for the year ending 31 December 2017 upon approval by the shareholders at the forthcoming annual general meeting of the Company.

A final dividend of RMB1,318,310,000 relating to the year ended 31 December 2016 was paid in 2017.

36 Notes to the consolidated statements of cash flows

(a) Net cash generated from operations

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit before income tax	18,691,753	13,195,878
Adjustments for:		
Interest income	(581,511)	(369,832)
Interest expense	731,566	682,076
Provision for impairment of receivables	56,169	57,362
Provision for impairment loss on completed properties held for sale	116,619	173,295
Depreciation	580,353	430,149
Gain on disposal of property and equipment	–	(90)
Share of results of associated companies	(167,593)	(37,584)
Share of results of joint ventures	482,969	485,975
Net gain on disposal of subsidiaries with loss of control	(59,451)	(476,406)
Net gain on acquisition of a subsidiary	–	(12,497)
Gain on deemed disposal of subsidiaries with loss of control	(60,496)	–
Gain on acquisition of equity interests in joint ventures and obtaining control	(34,183)	–
Amortisation of land use rights	84,991	84,180
Fair value loss/(gain) on derivative financial instruments	86,979	(140,478)
Interest received from investment in structured products issued by banks	(85,847)	(93,523)
Gain on disposal of investment in structured products issued by other financial institution	(5,001)	–
Fair value gains on investment properties	(679,484)	(1,996,673)
Write-off of intangible assets	–	26
Value of employee services arising from equity-settled share based payment scheme	75,470	50,005
Net exchange (gain)/loss	(1,478,469)	863,702
	17,754,834	12,895,565

36 Notes to the consolidated statements of cash flows (CONTINUED)

(a) Net cash generated from operations (continued)

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Changes in working capital:		
Properties under development, completed properties held for sale and prepayment for acquisition of land use rights	(12,692,428)	(1,640,725)
Other non-current assets	(803,556)	–
Biological assets	(15,831)	–
Restricted cash	(59,447)	(317,701)
Trade and other receivables and prepayments	9,963,939	(7,223,588)
Trade and other payables	5,101,794	1,679,743
Advanced proceeds received from customers	1,087,470	(152,277)
Amounts due to related companies excluding non-controlling interests	2,405,079	388,928
Net cash generated from operations	22,741,854	5,629,945

(b) Net debt reconciliation

Net debt	2017 RMB'000
Borrowings – repayable within one year	18,325,780
Borrowings – repayable after one year	69,309,472
Cash and cash equivalents	(28,537,441)
Net debt	59,097,811
Gross debt – fixed interest rates	61,421,040
Gross debt – variable interest rates	26,214,212
Cash and cash equivalents	(28,537,441)
Net debt	59,097,811

	Other assets		Liabilities from financing activities			Total
	Cash and cash equivalents	Finance leases due within 1 year	Finance leases due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net debt as at 31 December 2016	(19,359,175)	171,420	222,353	17,755,309	49,188,203	47,978,110
Cash flows	(9,202,215)	(180,099)	(83,114)	(8,869,852)	31,739,277	13,403,997
Foreign exchange adjustments	23,949	–	–	(803,330)	(918,375)	(1,697,756)
Reclassification	–	139,239	(139,239)	9,485,633	(9,485,633)	–
Other non-cash movements	–	–	–	627,460	(1,214,000)	(586,540)
Net debt as at 31 December 2017	(28,537,441)	130,560	–	18,195,220	69,309,472	59,097,811

37 Principal subsidiaries, associated companies and joint ventures

Particulars of the principal subsidiaries, associated companies and joint ventures of the Group as at 31 December 2017 are as follows:

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2017	Principal activities
Principal subsidiaries – established and operation conducted in the PRC					
上海世茂股份有限公司 (Shanghai Shimao Co., Ltd.)	1 July 1992	Foreign investment enterprise	Registered capital RMB2,679,405,901	58.92%	Property development
上海世茂房地產有限公司 (Shanghai Shimao Real Estate Co., Ltd.)	15 March 2000	Foreign investment enterprise	Registered capital US\$75,000,000	100%	Property development
上海世茂國際廣場有限責任公司 (Shanghai Shimao International Plaza Co., Ltd.)	15 September 1994	Foreign investment enterprise	Registered capital RMB1,600,000,000	100%	Hotel and shopping mall
上海世茂建設有限公司 (Shanghai Shimao Jianshe Co., Ltd.)	16 March 2001	Foreign investment enterprise	Registered capital RMB540,000,000	100%	Investment holding
上海世茂莊園置業有限公司 (Shanghai Shimao Manor Real Estate Co., Ltd.)	19 June 2002	Foreign investment enterprise	Registered capital US\$18,400,000	100%	Property development and hotel
上海世茂北外灘開發建設有限公司 (Shanghai Shimao North Bund Development and Construction Co., Ltd.)	17 May 2002	Foreign investment enterprise	Registered capital HK\$650,000,000	100%	Hotel
北京世茂投資發展有限公司 (Beijing Shimao Investment and Development Co., Ltd.)	26 December 2000	Foreign investment enterprise	Registered capital RMB755,780,000	100%	Property development
哈爾濱世茂濱江新城開發建設有限公司 (Harbin Shimao Riviera New City Development and Construction Co., Ltd.)	24 March 2004	Foreign investment enterprise	Registered capital HK\$548,000,000	100%	Property development
常熟世茂房地產開發有限公司 (Changshu Shimao Real Estate Development Co., Ltd.)	24 December 2004	Foreign investment enterprise	Registered capital HK\$440,000,000	100%	Property development
昆山世茂蝶湖灣開發建設有限公司 (Kunshan Shimao Butterfly Bay Development and Construction Co., Ltd.)	10 November 2003	Foreign investment enterprise	Registered capital RMB412,410,000	100%	Property development
武漢世茂錦繡長江房地產開發有限公司 (Wuhan Shimao Splendid River Real Estate Development Co., Ltd.)	6 June 2005	Foreign investment enterprise	Registered capital US\$114,269,000	100%	Property development
昆山世茂房地產開發有限公司 (Kunshan Shimao Real Estate Development Co., Ltd.)	24 December 2003	Domestic enterprise	Registered capital RMB547,668,147	58.92%	Property development
上海世茂新體驗置業有限公司 (Shanghai Shimao Wonderland Property Co., Ltd.)	6 March 2006	Domestic enterprise	Registered capital RMB391,092,834	58.92%	Property development

37 Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2017	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
紹興世茂新城房地產開發有限公司 (Shaoxing Shimao New City Real Estate Development Co., Ltd.)	11 July 2006	Foreign investment enterprise	Registered capital US\$52,350,000	100%	Property development
紹興世茂置業有限公司 (Shaoxing Shimao Property Co., Ltd.)	11 July 2006	Foreign investment enterprise	Registered capital US\$130,030,000	100%	Property development
蕪湖世茂房地產開發有限公司 (Wuhu Shimao Real Estate Development Co., Ltd.)	8 September 2006	Foreign investment enterprise	Registered capital US\$56,500,000	100%	Property development
煙台世茂置業有限公司 (Yantai Shimao Property Co., Ltd.)	6 September 2006	Foreign investment enterprise	Registered capital US\$48,500,000	100%	Property development
常州世茂房地產有限公司 (Changzhou Shimao Real Estate Co., Ltd.)	27 November 2006	Foreign investment enterprise	Registered capital US\$323,730,000	100%	Property development
青島世茂新城房地產開發有限公司 (Qingdao Shimao New City Real Estate Development Co., Ltd.)	29 April 2010	Foreign Investment enterprise	Registered capital US\$159,980,000	100%	Property development
杭州世茂置業有限公司 (Hangzhou Shimao Property Co., Ltd.)	13 December 2006	Foreign investment enterprise	Registered capital US\$111,900,000	100%	Property development
徐州世茂新城房地產開發有限公司 (Xuzhou Shimao New City Real Estate Development Co., Ltd.)	14 February 2007	Foreign investment enterprise	Registered capital US\$75,980,000	100%	Property development
徐州世茂置業有限公司 (Xuzhou Shimao Property Co., Ltd.)	14 February 2007	Domestic enterprise	Registered capital RMB491,412,600	58.92%	Property development
福州世茂實業有限公司 (Fuzhou Shimao Industrial Co., Ltd.)	5 July 2007	Foreign investment enterprise	Registered capital RMB430,000,000	100%	Property development
福州世茂新城房地產開發有限公司 (Fuzhou Shimao New City Real Estate Development Co., Ltd.)	5 July 2007	Foreign investment enterprise	Registered capital RMB880,000,000	100%	Property development
蕪湖世茂新發展置業有限公司 (Wuhu Shimao New Development Property Co., Ltd.)	16 May 2007	Domestic enterprise	Registered capital RMB110,000,000	58.92%	Property development
蕪湖世茂新世紀置業有限公司 (Wuhu Shimao New Century Property Co., Ltd.)	26 September 2007	Foreign investment enterprise	Registered capital RMB35,000,000	100%	Property development
瀋陽世茂新世紀房地產開發有限公司 (Shenyang Shimao New Century Real Estate Development Co., Ltd.)	24 May 2007	Domestic enterprise	Registered capital RMB581,512,000	58.92%	Property development

37 Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2017	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
瀋陽世茂新紀元置業有限公司 (Shenyang Shimao New Era Property Co., Ltd.)	24 May 2007	Foreign investment enterprise	Registered capital HK\$257,000,000	100%	Property development
大連世茂龍河發展有限公司 (Dalian Shimao Dragon River Development Co., Ltd.)	9 June 2006	Foreign investment enterprise	Registered capital US\$109,600,000	100%	Property development
蘇州世茂投資發展有限公司 (Suzhou Shimao Investment & Development Co., Ltd.)	2 March 2007	Domestic enterprise	Registered capital RMB526,795,630	58.92%	Property development
蘇州世茂置業有限公司 (Suzhou Shimao Property Co., Ltd.)	26 January 2007	Foreign investment enterprise	Registered capital US\$178,000,000	100%	Property development
紹興世茂新紀元置業有限公司 (Shaoxing Shimao New Era Property Co., Ltd.)	13 July 2007	Domestic enterprise	Registered capital RMB245,520,127	58.92%	Property development
紹興世茂新置業發展有限公司 (Shaoxing Shimao New Property Development Co., Ltd.)	13 July 2007	Foreign investment enterprise	Registered capital US\$14,500,000	100%	Property development
北京良譽房地產開發有限公司 (Beijing Liangyu Real Estate Development Co., Ltd.)	7 April 2013	Foreign investment enterprise	Registered capital RMB20,000,000	50%	Property development
牡丹江世茂置業有限公司 (Mudanjiang Shimao Property Co., Ltd.)	4 September 2007	Foreign investment enterprise	Registered capital US\$16,000,000	95%	Property development
牡丹江世茂新城房地產開發有限公司 (Mudanjiang Shimao New City Real Estate Development Co., Ltd.)	4 September 2007	Foreign investment enterprise	Registered capital US\$29,980,000	100%	Property development
常熟世茂新發展置業有限公司 (Changshu Shimao New Development Property Co., Ltd.)	24 August 2007	Domestic enterprise	Registered capital RMB692,174,000	58.92%	Property development
余姚世茂牟山湖休閒度假區開發有限公司 (Yuyao Shimao Moushanhu Leisure Resort Development Co., Ltd.)	21 October 2010	Domestic enterprise	Registered capital RMB200,000,000	70%	Property development
南通世茂房地產開發有限公司 (Nantong Shimao Real Estate Development Co., Ltd.)	14 December 2012	Domestic enterprise	Registered capital RMB100,000,000	100%	Property development
南京碩天投資管理有限公司 (Nanjing Shuotian Investment & Management Co., Ltd.)	18 December 2012	Domestic enterprise	Registered capital RMB100,000,000	100%	Property development

37 Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2017	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
天津生態城世茂投資發展有限公司 (Tianjin Eco-City Shimao Investment & Development Co., Ltd.)	12 August 2011	Domestic enterprise	Registered capital RMB162,644,691	75%	Property development
福州世茂新發展房地產開發有限公司 (Fuzhou Shimao New Development Real Estate Development Co., Ltd.)	18 October 2012	Domestic enterprise	Registered capital RMB878,000,000	100%	Property development
常州世茂新城房地產開發有限公司 (Changzhou Shimao New City Real Estate Development Co., Ltd.)	12 February 2007	Domestic enterprise	Registered capital RMB269,300,000	58.92%	Property development
張家港世茂房地產開發有限公司 (Zhangjiagang Shimao Real Estate Development Co., Ltd.)	12 July 2013	Domestic enterprise	Registered capital RMB1,000,000,000	51%	Property development
昆山世茂新發展置業有限公司 (Kunshan Shimao New Development Property Co., Ltd.)	12 September 2007	Foreign investment enterprise	Registered capital US\$49,980,000	100%	Property development
成都世盈投資管理諮詢有限公司 (Chengdu Shiying Investment Management Consulting Co., Ltd.)	20 September 2007	Foreign investment enterprise	Registered capital US\$29,980,000	100%	Property development
上海世源建材貿易有限公司 (Shanghai Shine Construction Materials Trading Co., Ltd.)	22 January 2007	Foreign investment enterprise	Registered capital HK\$65,000,000	100%	Trading of construction material
上海世盈投資管理有限公司 (Shanghai Shiying Investment Management Co., Ltd.)	21 August 2007	Domestic enterprise	Registered capital RMB200,000,000	100%	Investment holding
廈門信誠建築裝潢有限公司 (Xiamen Xincheng Building Decoration Co., Ltd.)	6 March 2007	Domestic enterprise	Registered capital RMB10,000,000	100%	Trading of construction material
牡丹江睿智營銷企劃有限公司 (Mudanjiang Ruizhi Marketing Planning Co., Ltd.)	4 December 2007	Domestic enterprise	Registered capital RMB1,000,000	100%	Marketing
青島世茂投資發展有限公司 (Qingdao Shimao Investment & Development Co., Ltd.)	27 May 2011	Domestic enterprise	Registered capital RMB450,000,000	58.92%	Property development
咸陽世茂房地產開發有限公司 (Xianyang Shimao Real Estate Development Co., Ltd.)	29 April 2004	Foreign investment enterprise	Registered capital HK\$30,000,000	100%	Property development

37 Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2017	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
上海碧橙房地產有限公司 (Shanghai Bicheng Real Estate Co., Ltd.)	28 September 2003	Domestic enterprise	Registered capital RMB236,200,000	100%	Property development
福建世茂投資發展有限公司 (Fujian Shimao Investment and Development Co., Ltd.)	17 November 2003	Foreign investment enterprise	Registered capital RMB200,000,000	79.46%	Property development
南京世茂房地產開發有限公司 (Nanjing Shimao Real Estate Development Co., Ltd.)	23 July 2004	Foreign investment enterprise	Registered capital RMB328,000,000	79.46%	Property development
上海星橙房地產有限公司 (Shanghai Xingcheng Real Estate Co., Ltd.)	25 January 2006	Domestic enterprise	Registered capital RMB28,000,000	100%	Property development
上海世茂投資管理有限公司 (Shanghai Shimao Investment Management Co., Ltd.)	11 May 2009	Domestic enterprise	Registered capital RMB50,000,000	100%	Investment holding
上海逸景園林景觀工程有限公司 (Shanghai Yijing Landscaping Architect Co., Ltd.)	3 September 2009	Domestic enterprise	Registered capital RMB10,000,000	100%	Architect
福建世茂新里程投資發展有限公司 (Fujian Shimao New Miles Investment Development Co., Ltd.)	10 October 2009	Domestic enterprise	Registered capital RMB1,867,000,000	79.05%	Property development
上海世茂企業發展有限公司 (Shanghai Shimao Enterprises Development Co., Ltd.)	22 June 2000	Domestic enterprise	Registered capital RMB101,723,586	50.85%	Investment holding
泰州世茂新發展置業有限公司 (Taizhou Shimao New Development Property Co., Ltd.)	17 January 2008	Foreign investment enterprise	Registered capital US\$20,000,000	100%	Property development
泰州世茂新城房地產開發有限公司 (Taizhou Shimao New City Real Estate Development Co., Ltd.)	22 February 2008	Foreign investment enterprise	Registered capital US\$40,000,000	100%	Property development
武漢世茂嘉年華置業有限公司 (Wuhan Shimao Carnival Property Co., Ltd.)	14 December 2009	Domestic enterprise	Registered capital RMB200,000,000	79.05%	Property development
寧波世茂房地產開發有限公司 (Ningbo Shimao Real Estate Development Co., Ltd.)	24 December 2007	Foreign investment enterprise	Registered capital US\$99,980,000	100%	Property development
大連世茂嘉年華置業有限公司 (Dalian Shimao Carnival Property Co., Ltd.)	4 September 2009	Domestic enterprise	Registered capital US\$100,000,000	100%	Property development

37 Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2017	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
天津世茂新里程置業有限公司 (Tianjin Shimao New Miles Property Co., Ltd.)	5 November 2009	Domestic enterprise	Registered capital RMB470,000,000	100%	Property development
成都世茂置業有限公司 (Chengdu Shimao Property Co., Ltd.)	13 October 2009	Domestic enterprise	Registered capital RMB299,021,884	100%	Property development
南通萃泰機電科技有限公司 (Nantong Cuitai Electromechanical & Technology Co., Ltd)	18 December 2012	Foreign investment enterprise	Registered capital US\$30,000,000	100%	Research and trading
蘇州世茂新發展房地產開發有限公司 (Suzhou Shimao New Development Real Estate Development Co., Ltd)	16 April 2013	Domestic enterprise	Registered capital RMB1,020,000,000	51%	Property development
蘇州世茂新世紀房地產開發有限公司 (Suzhou Shimao New Century Real Estate Development Co., Ltd)	16 April 2013	Domestic enterprise	Registered capital RMB1,470,678,120	51%	Property development
上海澤承投資管理有限公司 (Shanghai Zecheng Investment & Management Co., Ltd.)	20 December 2013	Domestic enterprise	Registered capital RMB60,000,000	50%	Investment holding
杭州世茂新領域房地產開發有限公司 (Hangzhou Shimao New Domain Real Estate Development Co., Ltd.)	22 March 2013	Domestic enterprise	Registered capital RMB620,000,000	62%	Property development
杭州世融匯盈置業有限公司 (Hangzhou Shirong Huiying Property Co., Ltd.)	29 May 2013	Foreign investment enterprise	Registered capital US\$150,000,000	51%	Property development
杭州世茂嘉年華置業有限公司 (Hangzhou Shimao Carnival Property Co., Ltd.)	16 October 2013	Domestic enterprise	Registered capital RMB2,000,000,000	100%	Property development
南昌水城投資股份有限公司 (Nanchang Shuicheng Investment Co., Ltd.)	8 December 2005	Domestic enterprise	Registered capital RMB350,000,000	58.92%	Property development
南昌世茂新紀元置業有限公司 (Nanchang Shimao New Era Property Co., Ltd.)	7 November 2013	Domestic enterprise	Registered capital RMB1,836,735,000	51%	Property development
天津世茂新體驗置業有限公司 (Tianjin Shimao New Experience Property Co., Ltd)	11 September 2013	Domestic enterprise	Registered capital RMB50,000,000	100%	Property development
山東世盈置業有限公司 (Shandong Shiyong Property Co., Ltd.)	8 March 2013	Domestic enterprise	Registered capital RMB1,220,000,000	50.82%	Property development

37 Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2017	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
北京世承投資管理有限公司 (Beijing Shicheng Investment & Management Co., Ltd.)	21 June 2013	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
上海瓊宇投資管理有限公司 (Shanghai Qiongyu Investment & Management Co., Ltd.)	21 March 2013	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
上海朋權投資管理有限公司 (Shanghai Pengquan Investment & Management Co., Ltd.)	21 March 2013	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
上海進璟投資管理有限公司 (Shanghai Jinjing Investment & Management Co., Ltd.)	26 April 2013	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
上海建木投資管理有限公司 (Shanghai Jianmu Investment & Management Co., Ltd.)	24 July 2013	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
上海西科投資管理有限公司 (Shanghai Xike Investment & Management Co., Ltd.)	24 July 2013	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
泉州諾信投資有限公司 (Quanzhou Nuoxin Investment Co., Ltd.)	22 October 2013	Domestic enterprise	Registered capital RMB1,000,000	100%	Investment holding
大連世茂新領域置業有限公司 (Dalian Shimao New Domain Property Co., Ltd.)	29 October 2013	Foreign investment enterprise	Registered capital US\$136,000,000	100%	Property development
大連世茂新體驗置業有限公司 (Dalian Shimao New Experience Property Co., Ltd.)	29 October 2013	Foreign investment enterprise	Registered capital US\$120,000,000	100%	Property development
石獅世茂房地產開發有限公司 (Shishi Shimao Real Estate Development Co., Ltd.)	16 May 2013	Domestic enterprise	Registered capital RMB639,000,000	55.67%	Property development
石獅世茂新城房地產開發有限公司 (Shishi Shimao New City Real Estate Development Co., Ltd.)	16 May 2013	Domestic enterprise	Registered capital RMB781,000,000	55.67%	Property development
大廠回族自治縣中基大業房地產開發 有限公司 (Dachang Hui Autonomous County Real Estate Development Co., Ltd.)	11 August 2011	Domestic enterprise	Registered capital RMB493,570,000	65%	Property development
福建世茂置業有限公司 (Fujian Shimao Property Co., Ltd.)	16 July 2009	Domestic enterprise	Registered capital RMB986,560,000	100%	Property development

37 Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2017	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
泉州世茂新領域置業有限公司 (Quanzhou Shimao New Domain Property Co., Ltd.)	15 March 2011	Domestic enterprise	Registered capital RMB1,037,750,000	100%	Property development
廈門世茂新紀元置業有限公司 (Xiamen Shimao New Era Property Co., Ltd.)	21 August 2014	Domestic enterprise	Registered capital RMB1,300,000,000	51%	Property development
上海容承企業管理有限公司 (Shanghai Rongcheng Enterprises Management Co., Ltd.)	21 January 2014	Domestic enterprise	Registered capital RMB200,000,000	100%	Investment holding
文昌世茂置業有限公司 (Wenchang Shimo Property Co., Ltd.)	19 April 2011	Domestic enterprise	Registered capital RMB550,000,000	51%	Property development
紹興世茂投資發展有限公司 (Shaoxing Shimo Investment Development Co., Ltd.)	13 July 2007	Domestic enterprise	Registered capital RMB483,457,740	58.92%	Property development
蘇州世茂新里程置業有限公司 (Suzhou Shimao New Miles Property Co., Ltd.)	17 January 2013	Domestic enterprise	Registered capital RMB600,000,000	58.92%	Property development
青島世茂濱海置業有限公司 (Qingdao Shimao Binhai Property Co., Ltd.)	8 November 2011	Domestic enterprise	Registered capital RMB200,000,000	58.92%	Property development
上海翊宇投資管理有限公司 (Shanghai Yiyu Investment & Management Co., Ltd.)	30 January 2015	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
上海晟翊投資管理有限公司 (Shanghai Shengyi Investment & Management Co., Ltd.)	30 January 2015	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
上海幻境投資管理有限公司 (Shanghai Huanjing Investment & Management Co., Ltd.)	15 February 2015	Domestic enterprise	Registered capital HK\$10,000,000	100%	Investment holding
武漢濱江天地商業經營管理有限公司 (Wuhan Riviera Tiandi Business-Operation Management Co., Ltd.)	12 January 2015	Domestic enterprise	Registered capital RMB1,000,000	100%	Investment holding
南京漢佑商業管理有限公司 (Nanjing Hanyou Business Management Co., Ltd.)	21 January 2015	Domestic enterprise	Registered capital RMB1,000,000	100%	Investment holding
大連旅順茂盛商業經營管理有限公司 (Dalian Lvshun Maosheng Business-Operation Management Co., Ltd.)	12 January 2015	Domestic enterprise	Registered capital RMB1,000,000	100%	Investment holding

37 Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2017	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
南京世招葦畚置業有限公司 (Nanjing Shizhao Quansheng Property Co., Ltd.)	27 January 2015	Domestic enterprise	Registered capital RMB250,000,000	51%	Investment holding
南京世茂星空投資有限公司 (Nanjing Shimao Xingkong Investment Co., Ltd.)	17 April 2015	Domestic enterprise	Registered capital RMB500,000,000	80%	Investment holding
銀川海茂房地產有限公司 (Yinchuan Haimao Real Estate Co., Ltd.)	20 May 2015	Domestic enterprise	Registered capital RMB100,000,000	51%	Property development
上海世茂旅遊發展有限公司 (Shanghai Shimao Travel Development Co., Ltd.)	11 June 2015	Domestic enterprise	Registered capital RMB10,000,000	100%	Others
重慶浚亮房地產開發有限公司 (Chongqing Junliang Real Estate Development Co., Ltd.)	25 July 2007	Domestic enterprise	Registered capital US\$200,000,000	100%	Property development
福州世茂新世紀房地產開發有限公司 (Fuzhou Shimao New Century Real Estate Development Co., Ltd.)	23 December 2010	Domestic enterprise	Registered capital RMB1,192,700,000	100%	Property development
福州世茂新紀元置業有限公司 (Fuzhou Shimao New Era Property Co., Ltd.)	23 December 2010	Domestic enterprise	Registered capital RMB887,900,000	100%	Property development
南京海峽城開發建設有限公司 (Nanjing Straits City Development Construction Co., Ltd.)	26 April 2011	Domestic enterprise	Registered capital US\$692,000,000	100%	Property development
平潭海峽如意城開發建設有限公司 (Pingtan Straits Ruyi City Development Construction Co., Ltd.)	31 May 2011	Domestic enterprise	Registered capital RMB615,630,000	100%	Property development
平潭海峽如意城新都會開發建設有限公司 (Pingtan Straits Ruyi City Xinduhui Development Construction Co., Ltd.)	31 May 2011	Domestic enterprise	Registered capital RMB226,050,000	100%	Property development
成都世茂房地產開發有限公司 (Chengdu Shimao Real Estate Development Co., Ltd.)	26 November 2010	Domestic enterprise	Registered capital RMB1,430,000,000	100%	Property development
天津生態城世茂新紀元投資開發有限公司 (Tianjin Eco-City Shimao New Era Investment Development Co., Ltd.)	9 November 2009	Domestic enterprise	Registered capital RMB409,140,400	75%	Property development
武漢虹玉置業有限公司 (Wuhan Hongyu Property Co., Ltd.)	9 May 2012	Domestic enterprise	Registered capital RMB1,295,600,000	51.22%	Property development

37 Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2017	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
瀋陽世茂新發展置業有限公司 (Shenyang Shimao New Development Property Co., Ltd.)	5 December 2006	Domestic enterprise	Registered capital US\$108,900,000	100%	Property development
武漢世茂新城房地產開發有限公司 (Wuhan Shimao New City Real Estate Development Co., Ltd.)	23 March 2012	Domestic enterprise	Registered capital RMB526,000,000	100%	Property development
南寧世茂新紀元房地產開發有限公司 (Nanning Shimao New Era Real Estate Development Co., Ltd.)	2 July 2014	Domestic enterprise	Registered capital RMB120,000,000	100%	Property development
寧波世茂新領域置業有限公司 (Ningbo Shimao New Domain Property Co., Ltd.)	6 February 2013	Domestic enterprise	Registered capital US\$72,000,000	100%	Property development
簡陽世茂房地產開發有限公司 (Jianyang Shimao Real Estate Development Co., Ltd.)	20 January 2014	Domestic enterprise	Registered capital RMB100,000,000	100%	Property development
寧波世茂新紀元置業有限公司 (Ningbo Shimao New Era Property Co., Ltd.)	27 May 2010	Domestic enterprise	Registered capital RMB50,000,000	100%	Property development
寧波世茂新騰飛置業有限公司 (Ningbo Shimao Xintengfei Property Co., Ltd.)	09 June 2013	Domestic enterprise	Registered capital RMB1,238,500,000	58.92%	Property development
常熟世茂新紀元置業有限公司 (Changshu Shimao New Era Property Co., Ltd.)	11 September 2013	Domestic enterprise	Registered capital RMB850,000,000	58.92%	Property development
上海茂沁投資管理有限公司 (Shanghai Maoqin Investment & Management Co., Ltd.)	5 December 2013	Domestic enterprise	Registered capital RMB1,371,770,000	58.92%	Investment holding
濟南世茂天城置業有限公司 (Jinan Shiamao Tiancheng Property Co., Ltd.)	7 January 2014	Domestic enterprise	Registered capital RMB1,131,000,000	58.92%	Property development
天津世茂新世紀置業有限公司 (Tianjin Shimao New Century Property Co., Ltd.)	6 May 2016	Domestic enterprise	Registered capital RMB350,000,000	100%	Property development
天津茂晟酒店管理有限公司 (Tianjin Maosheng Hotel Management Co., Ltd.)	19 October 2016	Domestic enterprise	Registered capital RMB10,000,000	100%	Hotel

37 Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2017	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
泰州世悦酒店管理有限公司 (Taizhou Shiyue Hotel Management Co., Ltd.)	27 November 2016	Domestic enterprise	Registered capital RMB10,000,000	100%	Hotel
泉州世茂融信新世紀房地產有限責任公司 (Quanzhou Shimao Rongxin New Century Real Estate Co., Ltd.)	10 October 2016	Domestic enterprise	Registered capital RMB50,000,000	79.05%	Property development
泉州世茂融信新領航房地產有限責任公司 (Quanzhou Shimao Rongxin New Pioneer Real Estate Co., Ltd.)	10 October 2016	Domestic enterprise	Registered capital RMB50,000,000	79.05%	Property development
南京世茂新發展置業有限公司 (Nanjing Shimao New Development Property Co., Ltd.)	13 January 2016	Domestic enterprise	Registered capital RMB3,000,000,000	75.99%	Property development
南京世茂新領航置業有限公司 (Nanjing Shimao New Pioneer Property Co., Ltd.)	1 June 2016	Domestic enterprise	Registered capital RMB7,700,000,000	56.80%	Property development
銀川世茂新發展置業有限公司 (Yinchuan Shimao New Development Property Co., Ltd.)	12 January 2016	Domestic enterprise	Registered capital RMB100,000,000	100%	Property development
成都世茂新世紀商業管理有限公司 (Chengdu Shimao New Century Business Management Co., Ltd.)	13 July 2016	Domestic enterprise	Registered capital RMB1,000,000	100%	Investment holding
南京世茂商業管理有限公司 (Nanjing Shimao Business Management Co., Ltd.)	10 December 2016	Domestic enterprise	Registered capital RMB1,000,000	100%	Investment holding
張家港世茂新里程房地產開發有限公司 (Zhangjiagang Shimao New Miles Real Estate Development Co., Ltd.)	29 March 2016	Domestic enterprise	Registered capital RMB1,400,000,000	51%	Property development
上海茂怡酒店管理有限公司 (Shanghai Maoyi Hotel Management Co., Ltd.)	19 March 2014	Domestic enterprise	Registered capital RMB1,000,000	100%	Hotel
泉州美亞商業管理有限公司 (Quanzhou Meiya Business Management Co., Ltd.)	25 June 2014	Domestic enterprise	Registered capital RMB50,000,000	51%	Investment holding
泉州美亞環境工程有限公司 (Quanzhou Meiya Environmental Engineering Co., Ltd.)	25 June 2014	Domestic enterprise	Registered capital RMB39,000,000	51%	Architect

37 Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2017	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
上海茂環置業有限公司 (Shanghai Maojing Property Co., Ltd.)	6 February 2017	Domestic enterprise	Registered capital RMB10,000,000	51%	Property development
福建世茂嘉年華房地產開發有限公司 (Fujian Shimao Carnival Real Estate Development Co., Ltd.)	14 March 2017	Domestic enterprise	Registered capital RMB10,000,000	100%	Property development
無錫迎碧房地產開發有限公司 (Wuxi Yingbi Real Estate Development Co., Ltd.)	4 January 2016	Domestic enterprise	Registered capital RMB10,000,000	51%	Property development
上海益碧房地產開發有限公司 (Shanghai Yibi Real Estate Development Co., Ltd.)	19 January 2017	Domestic enterprise	Registered capital RMB10,000,000	51%	Property development
廈門毅駿置業有限公司 (Xiamen Yijun Property Co., Ltd.)	9 August 2017	Domestic enterprise	Registered capital RMB10,000,000	50%	Property development
福州世茂悅盈置業有限公司 (Fuzhou Shimao Yueying Property Co., Ltd.)	3 July 2017	Domestic enterprise	Registered capital RMB100,000,000	100%	Property development
福州世茂世盈置業有限公司 (Fuzhou Shimao Shiyi Property Co., Ltd.)	22 September 2017	Domestic enterprise	Registered capital RMB100,000,000	100%	Property development
福州世茂世悅置業有限公司 (Fuzhou Shimao Shiyue Property Co., Ltd.)	12 July 2017	Domestic enterprise	Registered capital RMB100,000,000	100%	Property development
Principal subsidiaries – incorporated and operation conducted in the British Virgin Islands					
Shimao Property Holdings (BVI) Limited	23 August 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Advance Assets Holdings Limited	22 June 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Best Empire Investments Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Double Achieve Assets Limited	31 January 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Ease Reach Group Limited	13 December 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
East Light Group Limited	12 May 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding

37 Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2017	Principal activities
Principal subsidiaries – incorporated and operation conducted in the British Virgin Islands (continued)					
Everactive Properties Limited	2 May 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Highsharp International Limited	23 February 2007	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Keen Villa Limited	10 May 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Magic Dynasty Investments Limited	15 November 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Mega Universe Limited	10 July 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Peak Castle Assets Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Peak Gain International Limited	13 December 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Precise Choice Investments Limited	18 October 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Prime Master Holdings Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Shimao Management (Overseas) Limited	18 December 2002	Limited liability company	1 ordinary share of US\$1	100%	Management services
Significant Asset Group Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Vicking International Ltd.	19 January 1994	Limited liability company	50,000 ordinary shares of US\$50,000	100%	Investment holding
Wickfair Investments Limited	8 October 2004	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Year Grant Investments Limited	3 September 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Advance Solution Holdings Limited	9 June 2015	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Ideal Sense Limited	27 May 2015	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
One Best Limited	29 May 2015	Limited liability company	1 ordinary share of US\$1	100%	Investment holding

37 Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2017	Principal activities
Principal subsidiaries – incorporated and operation conducted in the British Virgin Islands (continued)					
Peak Dragon Limited	16 January 2015	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Assets Circle Limited	2 February 2016	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Classic Prime Limited	20 May 2016	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Unique Wonder Limited	24 August 2016	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Paramount Gain Limited	29 August 2016	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Fortune Spring Ventures Limited	8 November 2016	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Up Chance Holdings Limited	1 December 2016	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Able Noble Holdings Limited	12 December 2016	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Shimao Mini Hotel Group Limited	22 April 2014	Limited liability company	100 ordinary shares of US\$100	51%	Investment holding
Straits Construction Investment (Holdings) Limited	17 November 2009	Limited liability company	45,000 ordinary shares of US\$450,000,000	100%	Investment holding
Win Real Group Limited	29 May 2007	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Principal subsidiaries – incorporated and operation conducted in Hong Kong					
Brilliant Architectural and Construction Professional Consultancy Limited	28 July 2006	Limited liability company	100,000 ordinary shares of HK\$100,000	100%	Consultancy services
Bonus Boom Limited	13 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Brand Rise Limited	5 March 2013	Limited liability company	1 ordinary share of HK\$1	100%	Property holding
Charm Field Group Limited	1 August 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Clear Rise Investments Limited	8 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Daily Right Holdings Limited	7 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding

37 Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2017	Principal activities
Principal subsidiaries – incorporated and operation conducted in Hong Kong (continued)					
Excel Grand Group Limited	22 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Excellent Space Limited	9 June 2015	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Fast Award Limited	9 June 2015	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Adventure Success Limited	25 November 2014	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Excel Mode Investments Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Faith Joy Investments Limited	7 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Fine Tune Investments Limited	5 June 2006	Limited liability company	1 ordinary share of HK\$1	100%	Holding of trademarks
Future Right Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Global Square Investments Limited	29 October 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Lion Kingdom Investments Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Modern Professional Architectural Design Limited	28 July 2006	Limited liability company	100,000 ordinary shares of HK\$100,000	100%	Design services
Mount Profit Investments Limited	14 December 2006	Limited liability company	2 ordinary shares of HK\$1,040,199,528	100%	Investment holding
New Sincere Investments Limited	11 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Power One Holdings Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Rich Noble Group Limited	8 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Rise Max International Limited	16 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Shimao Holdings Company Limited	3 February 1994	Limited liability company	395 million ordinary shares of HK\$395 million	100%	Investment holding

37 Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2017	Principal activities
Principal subsidiaries – incorporated and operation conducted in Hong Kong (continued)					
Swift Time Limited	18 March 2009	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Topwise Limited	29 March 2005	Limited liability company	1 ordinary share of HK\$1	100%	Management services
Grandday International Limited	11 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Associated companies – established and operation conducted in the PRC					
成都市恒裕房地產開發有限公司 (Chengdu Heng Yu Real Estate Development Co., Ltd.)	7 May 2010	Domestic enterprise	Registered capital RMB4,030,000,000	33.33%	Property development
南京明茂置業有限公司 (Nanjing Mingmao Property Co., Ltd.)	5 February 2015	Domestic enterprise	Registered capital RMB820,000,000	49%	Property development
廣州市誠譽房地產開發有限公司 (Guangzhou Chengyu Real Estate Development Co., Ltd.)	25 November 2012	Domestic enterprise	Registered capital RMB60,000,000	50%	Investment holding
Associated companies – incorporated and operation conducted in the British Virgin Islands					
Eagle Rights Limited	31 March 2010	Limited liability company	45,000,000 shares with no par value	33.33%	Investment holding
Joint ventures – established and operation conducted in the PRC					
無錫世茂房地產開發建設有限公司 (Wuxi Shimao Real Estate Development & Construction Co., Ltd.)	20 November 2009	Domestic enterprise	Registered capital RMB900,000,000	50%	Property development
天津津南新城房地產開發有限公司 (Tianjin Jinnan Xincheng Real Estate Development Co., Ltd.)	26 May 2010	Domestic enterprise	Registered capital RMB3,667,300,000	25%	Property development
天津和安投資有限公司 (Tianjin Hean Investment Co., Ltd.)	19 August 2010	Domestic enterprise	Registered capital RMB10,000,000	25%	Investment holding
南昌世茂新發展置業有限公司 (Nanchang Shimao New Development Property Co., Ltd.)	19 October 2010	Domestic enterprise	Registered capital RMB800,000,000	50%	Property development
長沙世茂房地產有限公司 (Changsha Shimao Real Estate Co., Ltd.)	21 July 2010	Domestic enterprise	Registered capital RMB500,000,000	50%	Property development
成都世茂投資有限公司 (Chengdu Shimao Investment Co., Ltd.)	17 November 2009	Domestic enterprise	Registered capital RMB200,000,000	50%	Property development

37 Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2017	Principal activities
Joint ventures – established and operation conducted in the PRC (continued)					
寧波世茂新世紀房地產開發有限公司 (Ningbo Shimao New Century Real Estate Development Co., Ltd.)	1 March 2013	Domestic enterprise	Registered capital RMB1,429,000,000	50%	Property development
南通世茂新紀元房地產開發有限公司 (Nantong Shimao New Era Real Estate Development Co., Ltd.)	18 June 2013	Domestic enterprise	Registered capital RMB700,000,000	50%	Property development
廣州新合房地產有限公司 (Guangzhou Xinhe Real Estate Co., Ltd.)	11 May 2017	Domestic enterprise	Registered capital RMB100,000,000	33%	Property development
北京遠創興茂置業有限公司 (Beijing Yuanchuang Xingmao Property Co., Ltd.)	15 August 2017	Domestic enterprise	Registered capital RMB100,000,000	30%	Property development
廣州利合房地產開發有限公司 (Guangzhou Li He Property Development Co., Ltd.)	5 February 2010	Foreign Investment enterprise	Registered capital RMB2,059,377,000	26.67%	Property development
蘇州工業園區世茂湖濱置業有限公司 (Suzhou Shimao Industrial Park Lakeside Property Co., Ltd.)	29 October 2013	Domestic enterprise	Registered capital RMB1,400,000,000	49.29%	Property development
寧波世茂新里程置業有限公司 (Ningbo Shimao New Miles Property Co., Ltd.)	05 August 2011	Domestic enterprise	Registered capital RMB600,000,000	50%	Property development
長沙世茂投資有限公司 (Changsha Shimao Investment Co., Ltd.)	21 July 2010	Domestic enterprise	Registered capital RMB1,000,000,000	49%	Property development
寧波世茂新城房地產開發有限公司 (Ningbo Shimao New City Real Estate Development Co., Ltd.)	19 May 2010	Domestic enterprise	Registered capital RMB160,000,000	50%	Property development
上海世茂佘山匯置業有限公司 (Shanghai Shimao Sheshan Huiying Property Co., Ltd.)	14 September 2012	Domestic enterprise	Registered capital RMB860,000,000	50%	Property development
上海春日置業有限公司 (Shanghai Chunri Property Co., Ltd.)	3 August 2001	Domestic enterprise	Registered capital RMB90,000,000	45%	Property development
寧波世茂嘉年華置業有限公司 (Ningbo Shimao Carnival Property Co., Ltd.)	18 December 2013	Domestic enterprise	Registered capital RMB400,000,000	50%	Property development
Joint ventures – established and operation conducted in Hong Kong					
Fast Right Investments Limited	7 May 2007	Limited liability company	2 ordinary shares of HK\$2	50%	Investment holding
Kingtron Enterprises Limited	14 June 2007	Limited liability company	2 ordinary shares of HK\$2	50%	Investment holding

38 Contingencies and financial guarantee contracts

(a) The Group had the following contingent liabilities

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Guarantees in respect of mortgage facilities for certain purchasers	11,799,064	20,614,857

Note:

The Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to retain the legal title and take over possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends when the Group obtained the "property title certificate" for the mortgagees, or when the Group obtained the "master property title certificate" upon completion of construction. The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the guarantees.

(b) The Group had the following financial guarantee liabilities

	Year of maturity	As at 31 December	
		2017	2016
		RMB'000	RMB'000
Guarantee in respect of borrowings	2018-2022	6,958,785	6,298,249

Note:

The Group and other shareholders provided guarantees in proportion of their respective equity interests in certain joint ventures and associated companies for their bank borrowings. The respective guarantees provided by the Group amounted to RMB6,958,785,000 as at 31 December 2017 (2016: RMB6,298,249,000). The fair value of the financial guarantee contracts are not significant. The Directors are of the view that such obligation will not cause an outflow of the Group's resources embodying economic benefits.

(c) Contingencies for litigation

A bank filed a litigation against Shanghai Shimaο, a subsidiary of the Company, alleging that Shanghai Shimaο should repay the principal and interest of the borrowings in a total amount of approximately RMB390,000,000 on behalf of Hangzhou Shimaο Century Property Co., Ltd. ("Hangzhou Shimaο"), an associated company of Shanghai Shimaο, since Hangzhou Shimaο was in financial difficulty and Shanghai Shimaο once provided guarantee in respect to its borrowings. The provision charge amounting to approximately RMB53,210,000 has been recognised in profit or loss within 'Other income/other gains – net' during the year ended 31 December 2016. As at 31 December 2017, the legal litigation is still in trial process. In the opinion of the Directors, after taking into consideration the appropriate legal advice, the outcome of this legal litigation will not give rise to any significant loss beyond the estimated amounts provided as at 31 December 2017 and 2016. No more provision has been accrued or reversed during the year ended 31 December 2017.

For other litigation against the Group, the Directors are of the view that they would not cause an outflow of the Group's resources embodying economic benefits as at 31 December 2017.

39 Commitments

(a) Commitments for capital and property development expenditure

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Contracted but not provided for		
– Property and equipment	1,365,178	1,114,851
– Land use rights (including those related to associated companies and joint ventures)	20,365,570	15,975,981
– Properties being developed by the Group for sale	28,696,742	25,840,875
	50,427,490	42,931,707

39 Commitments (CONTINUED)

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings are as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within one year	138,997	145,786
Between two to five years	336,916	419,248
After five years	142,376	190,850
	618,289	755,884

40 Significant acquisition or disposal of subsidiaries and transactions with NCI

(a) Acquisition of subsidiaries

In March 2017, the Group acquired 2% equity interest of Wuhan Tianrun, a joint venture of the Group, at a consideration of RMB35,132,000. After the acquisition, the Group owned 52% shares of the company and gained control over the company pursuant to the revised articles of association. The carrying value of the investment in the joint venture was RMB844,117,000 before the business combination. The purchase resulted in a net cash inflow of RMB228,345,000 and RMB34,183,000 gain was recognised from this acquisition.

For the year ended 31 December 2017, the Group acquired Quanzhou Meiya Environmental Engineering Co., Ltd., Quanzhou Meiya Business Management Co., Ltd., Shanghai Juji Mortgage Co., Ltd., Beijing Chengyude Real Estate Development Co., Ltd. and Wuxi Yingbi Real Estate Development Co., Ltd. at a total consideration of RMB495,349,000. The acquisition resulted in a net cash outflow of RMB478,424,000.

The following table summarizes the consideration paid, the fair value of assets acquired, liabilities assumed and the non-controlling interests at the acquisition date.

	RMB'000
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	280,402
Properties under development	3,128,151
Trade and other receivables and prepayments	9,065,064
Property and equipment (Note 6)	65
Borrowings	(1,937,000)
Advanced proceeds received	(1,127,971)
Trade and other payables	(7,142,483)
Total identifiable net assets	2,266,228
Non-controlling interests	(857,447)
Total acquired net assets	1,408,781
Book value of previously held interests in the joint venture (Note 11)	(844,117)
Cash consideration paid	(530,481)
Gain on acquisition (Note 28)	34,183
Cash consideration paid	(530,481)
Cash and cash equivalents in the entity acquired	280,402
Net cash outflow from acquisition	(250,079)

40 Significant acquisition or disposal of subsidiaries and transactions with NCI (CONTINUED)

(b) Disposal of subsidiaries (with loss of control)**(i) Disposal of subsidiaries with loss of control and remaining interest retained as joint venture**

For the year ended 31 December 2017, the Group disposed 50% equity interest in Shenyang Zhaolong Property Development Co., Ltd. and 49% in Shimao Mini Hotel Group Limited, the two then wholly owned subsidiaries. The remaining interests of the Group in these joint ventures have a fair value of RMB190,460,000. The disposal resulted in a net cash inflow of RMB19,937,000 and a net gain of RMB16,048,000.

Net assets disposed and reconciliation of disposal gains and cash inflow on disposal are as follow:

	RMB'000
Cash and cash equivalents	170,523
Completed properties held for sale	281,984
Properties under development	1,442,432
Property and equipment	100,251
Trade and other receivables and prepayments	378,178
Deferred tax assets	37,498
Prepaid income tax	12,105
Borrowings	(209,540)
Advanced proceeds received	(1,518)
Trade and other payables	(1,847,041)
 Net assets	 364,872
 Fair value of interests retained in joint ventures (Note 11)	 190,460
Total consideration	190,460
Net assets disposed	(364,872)
 Disposal gain (Note 28)	 16,048
 Total consideration	 190,460
Less: Cash and cash equivalents in the entities disposed	(170,523)
 Net cash inflow arising from disposal	 19,937

40 Significant acquisition or disposal of subsidiaries and transactions with NCI (CONTINUED)

(b) Disposal of subsidiaries (with loss of control) (continued)**(ii) Disposal of subsidiaries without retained equity interests**

For the year ended 31 December 2017, the Group disposed of the entire equity interests in two wholly owned subsidiaries, namely Nanjing Yingrui Corporate Management & Consulting Co., Ltd. and Harbin Jinjiyuan Property Co., Ltd., with total consideration of RMB92,520,000 and a net gain of RMB43,403,000.

Net assets disposed with reconciliation of disposal gains and cash outflow on disposal are as follow:

	RMB'000
Cash and cash equivalents	9
Trade and other receivables and prepayments	54,990
Properties under development	49,098
Trade and other payables	(54,981)
Deferred tax assets	1
Net assets	49,117
Total consideration	92,520
Net assets disposed	(49,117)
Disposal gain (Note 28)	43,403
Total consideration	92,520
Less: Cash and cash equivalents in the entities disposed	(9)
Net cash inflow arising from disposal	92,511

(c) Deemed disposal of subsidiaries

For the year ended 31 December 2017, the Group lost control of seven subsidiaries pursuant to capital injection by seven new investors into these companies. The remaining interests of the Group in these joint ventures has a total fair value of RMB1,350,000,000. After such capital injections, these companies became joint ventures of the Group.

These companies are respectively, Nanning Shimao Investment Co., Ltd., Fujian Ruiying, Gu'an Maoyue, Nantong New Miles and so on.

40 Significant acquisition or disposal of subsidiaries and transactions with NCI (CONTINUED)

(c) Deemed disposal of subsidiaries (continued)

The following table summarises the net assets of these companies at the date of disposal. The disposal resulted in a net cash outflow of RMB238,427,000 and a net gain of RMB60,496,000 was recognised from these capital injections.

	The date of disposal RMB'000
Trade receivables, other receivables and prepayment	2,143,297
Cash and cash equivalents	238,427
Deferred tax assets	3,830
Property and equipment	231
Other assets	4,309,558
Borrowings	(2,314,000)
Other liabilities	(3,083,730)
 Total identifiable net assets	 1,297,613
 Non-controlling interests	 (8,109)
 Net assets attributable to the equity holders of the company	 1,289,504
 Gain on deemed disposal of subsidiaries:	
Fair value of interests retained in joint ventures (Note 11)	1,350,000
Net assets attributable to the equity holders of the company disposed	(1,289,504)
 Gain on deemed disposal (Note 28)	 60,496
 Net cash outflow arising from deemed disposal	 (238,427)

(d) Transaction with non-controlling interests

(i) Capital contribution from non-controlling interests

For the year ended 31 December 2017, non-controlling interests made several capital injections into the Group with total amount of RMB2,973,971,000, which was equal to the carrying amount of non-controlling interests acquired on the date of acquisition.

(ii) Changes in ownership interests in subsidiaries without change of control

For the year ended 31 December 2017, the Group acquired additional interests in the subsidiaries for a total consideration of RMB2,736,678,000. The Group recognised a decrease in non-controlling interests of RMB2,499,695,000 and a decrease in equity attributable to the equity holders of the Company of RMB236,983,000. The effect of changes in the ownership interest of the Group on the equity attributable to the equity holders of the Company during the year is summarised as follows:

	The date of acquisition RMB'000
Carrying amount of non-controlling interests acquired	2,499,695
Consideration paid to non-controlling interests	(2,736,678)
Excess of consideration paid recognised in equity	(236,983)

41 Related party transactions

The Group is controlled by Gemfair Investments Limited (Incorporated in the British Virgin Islands), which owns 57.513% of the Company's shares. The ultimate controlling party of the Group is Mr. Hui Wing Mau.

- (a) Other than those disclosed elsewhere in the consolidated financial statements, the Group entered into the following major related party transactions during the year ended 31 December 2017.

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Construction material sold to related companies	68,629	57,047

(b) Key management compensation

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Emoluments		
– Salaries and other short-term employee benefits	22,507	24,718
– Retirement scheme contributions	287	298
	22,794	25,016

- (c) On 29 May 2017, the Group acquired interests in a certain company established in British Virgin Islands which was wholly owned by Shimao International Holdings Limited, the ultimate controlling person is Mr. Hui Wing Mau. The total consideration is RMB138,730,000, which has been paid in June 2017. The principal activities of this company and subsidiaries are property development and hotel operation. As at the acquisition date, land owned by this company is reserved without ground-breaking.

42 Events after the reporting period

On 30 January 2018, the Company issued senior notes with total principal of US\$500,000,000 at a fixed interest rate of 5.20% due on 30 January 2025.

On 6 February 2018, Shanghai Shimao issued medium-term notes with total principal of RMB800,000,000 at a fixed interest rate of 6.43% due on 7 February 2021. On 6 March 2018, Shanghai Shimao issued medium-term notes with total principal of RMB700,000,000 at a fixed interest rate of 6.33% due on 8 March 2021.

On 15 March 2018, the Company issued senior notes with total principal of RMB950,000,000 at a fixed interest rate of 5.75% due on 15 March 2021.

43 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Company's board of directors on 27 March 2018.

44 Balance sheet and reserve movement of the Company

Balance sheet of the Company

	Note	Audited 31 December 2017 RMB'000	Audited 31 December 2016 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries		22,691,075	24,447,906
Other non-current assets		2,305,086	71,865
		24,996,161	24,519,771
Current assets			
Other receivables		–	1,406
Derivate financial instruments		1,190	90,199
Dividends receivable from subsidiaries		13,000,000	8,500,000
Cash and cash equivalents		318,218	143,660
		13,319,408	8,735,265
Total assets		38,315,569	33,255,036
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital		348,864	348,864
Reserves			
– Proposed final dividend	a	1,638,371	1,318,310
– Others	a	1,203,029	1,794,846
Total equity		3,190,264	3,462,020
LIABILITIES			
Non-current liabilities			
Borrowings		28,708,753	21,746,426
Current liabilities			
Borrowings		5,421,488	7,025,735
Other payables and accrued expenses		772,081	795,560
Amounts due to subsidiaries		222,983	225,295
		6,416,552	8,046,590
Total liabilities		35,125,305	29,793,016
Total equity and liabilities		38,315,569	33,255,036
Net current assets		6,902,856	688,675
Total assets less current liabilities		31,899,017	25,208,446

The financial statements on pages 82 to 180 were approved by the Board of Directors on 27 March 2018 and were signed on its behalf.

Hui Wing Mau
Director

Hui Sai Tan, Jason
Director

44 Balance sheet and reserve movement of the Company (CONTINUED)

Balance sheet of the Company (continued)

Note:

(a) Reserve movement of the Company

	Share premium	Share-based compensation reserve	Capital redemption reserve	Retained earnings/ (accumulated losses)	Total
	RMB'000 (Note (i))	RMB'000 (Note (ii))	RMB'000	RMB'000	RMB'000
Balance at 1 January 2016	2,601,905	163,337	4,949	17,240	2,787,431
Income for the year	–	–	–	3,183,516	3,183,516
Equity-settled share-based payment					
– Value of employee services	–	49,344	–	–	49,344
– Purchase of shares	(37,198)	–	–	–	(37,198)
– Dividend received	7,518	–	–	–	7,518
Buy-back of shares					
– Purchase of shares	(758,374)	–	–	–	(758,374)
– Dividend received	6,455	–	–	–	6,455
– Cancellation of shares	7,411	–	–	–	7,411
2015 final dividend paid	(1,187,203)	–	–	–	(1,187,203)
2016 interim dividend paid	–	–	–	(945,744)	(945,744)
Balance at 31 December 2016	640,514	212,681	4,949	2,255,012	3,113,156
Representing:					
Proposed final dividend				1,318,310	1,318,310
Others				936,702	1,794,846
				2,255,012	3,113,156
Balance at 1 January 2017	640,514	212,681	4,949	2,255,012	3,113,156
Income for the year	–	–	–	2,147,931	2,147,931
Equity-settled share-based payment					
– Value of employee services	–	75,470	–	–	75,470
– Purchase of shares	(65,328)	–	–	–	(65,328)
– Dividends received	6,510	–	–	–	6,510
2016 final dividend paid	–	–	–	(1,293,423)	(1,293,423)
2017 interim dividend paid	–	–	–	(1,142,916)	(1,142,916)
Balance at 31 December 2017	581,696	288,151	4,949	1,966,604	2,841,400
Representing:					
Proposed final dividend				1,638,371	1,638,371
Others				328,233	1,203,029
				1,966,604	2,841,400

Notes:

- (i) Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provision of the Articles of Association of the Company.
- (ii) Share-based compensation reserve represents value of employee services in respect of share options granted under the share option schemes and shares granted under the Share Award Scheme (Note 21).

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Shimao Property Holdings Limited

(incorporated in Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Shimao Property Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 82 to 176, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 ("HKSAAs") 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

KEY AUDIT MATTERS

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

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

- Valuation of investment properties
- Impairment of goodwill

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of investment properties	
<p>Refer to note 2.7 "Summary of significant accounting policies – Investment property" and note 7 "Investment properties" to the consolidated financial statements.</p> <p>The Group's investment properties were carried at RMB32,271 million as at 31 December 2016 and a revaluation gain of RMB1,997 million was recorded in the consolidated income statement for the year ended 31 December 2016, which represented 12.3% of total assets as at 31 December 2016 and 15.1% of profit before income tax for the year ended 31 December 2016 respectively.</p> <p>We focused on this area because the investment property balance and the revaluation gain during the year based on the valuation of the investment properties are significant to the financial statements and the valuation of the investment properties, which was performed by independent and professionally qualified valuers ("the Valuers"), was highly dependent on the estimates on key assumptions, including market prices and estimated costs to be incurred.</p>	<p>We assessed the competence, independence and integrity of the Valuers.</p> <p>We assessed whether the valuation methodology used is acceptable with the assistance of our internal valuation experts.</p> <p>We tested the inputs used in the valuation, on a sample basis, to available supporting evidence including rental contracts, available third-party reports and market data of comparable properties. We also checked the mathematical accuracy of the underlying calculations in the valuation model.</p> <p>We challenged management's estimates on key assumptions adopted in the valuation by comparing market prices to the recent comparable transactions and comparing estimated costs to be incurred to the project budgets. We also evaluated past actual to budget variance to assess the reliability of the project budgets.</p> <p>In addition, we assessed the sensitivity analysis performed by management to consider the likelihood that the actual outcome differs from the estimates on key assumptions to an extent that results in significant change to the valuation of the investment properties.</p> <p>Based on the work conducted, we found that the methodology applied by management was acceptable and the estimates on key assumptions adopted were supported by the evidence we gathered.</p>

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of goodwill	
<p>Refer to note 2.8 "Summary of significant accounting policies – Intangible assets – goodwill" and note 9 "Intangible assets" to the consolidated financial statements.</p> <p>As at 31 December 2016, goodwill in relation to Shanghai Shimao Co., Ltd. ("Shanghai Shimao"), a subsidiary listed in PRC stock market amounted to RMB1,710 million, representing 92.9% of the goodwill and 1.94% of net assets of the Group.</p> <p>Management is required to assess goodwill impairment on an annual basis. In view of volatility of the PRC stock market and that the market value of Shanghai Shimao was lower than its net book value as at 31 December 2016, management was required to assess if impairment was needed based on discount future cash flow calculations.</p> <p>We focused on this area because the preparation of the discounted cash flow projection involved estimates on key assumptions about Shanghai Shimao's gross margin excluding land appreciation tax, long term growth rate of revenue and discount rate.</p>	<p>We assessed the key assumptions used in the cash flow forecasts (such as gross margin excluding land appreciation tax and long term growth rate of revenue) by comparing approved budget, historical trend, available market data and industry outlook.</p> <p>We assessed the discount rate used in the discounted cash flow projection with the assistance from our internal valuation experts.</p> <p>We tested the mathematical accuracy of the discounted cash flow projection and compared cash flow forecasts to the latest approved management plan. We also compared the current year's actual performance with the prior year's management plan to assess the reliability of the management plan.</p> <p>In addition, we assessed the sensitivity analysis performed by management to consider the likelihood that the actual outcome differs from the estimates on key assumptions to an extent that results in goodwill being impaired.</p> <p>Based upon the above procedures, we found that management's estimates on key assumptions were supported by the evidence we gathered.</p>

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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 HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Cheung Chin Hoo, Albert.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 29 March 2017

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

		As at 31 December	
	Note	2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Property and equipment	6	13,493,658	11,571,944
Investment properties	7	32,270,913	30,025,297
Land use rights	8	8,218,571	7,921,887
Intangible assets	9	1,840,658	1,840,684
Associated companies	10	912,465	898,275
Joint ventures	11	9,183,425	9,784,898
Amounts due from related parties	12	1,923,231	2,774,694
Available-for-sale financial assets	13	941,256	1,204,470
Deferred income tax assets	14	2,298,849	1,983,977
Other non-current assets	15	1,629,639	1,311,526
		72,712,665	69,317,652
Current assets			
Inventories	16	120,342,997	118,867,526
Trade and other receivables and prepayments	17	20,256,536	14,786,878
Prepayment for acquisition of land use rights	18	17,950,915	11,133,906
Prepaid income taxes		2,691,546	2,115,462
Available-for-sale financial assets	13	3,000,000	–
Amounts due from related parties	12	2,623,314	1,581,929
Derivative financial instruments	19	90,199	41,782
Restricted cash	20	2,875,658	3,817,713
Cash and cash equivalents	20	19,359,175	22,591,843
		189,190,340	174,937,039
Total assets		261,903,005	244,254,691
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	21	348,864	356,275
Reserves	22	52,107,187	49,805,385
		52,456,051	50,161,660
Non-controlling interests			
Perpetual capital instruments	23	4,500,000	–
Other non-controlling interests		31,260,942	24,587,660
		35,760,942	24,587,660
Total equity		88,216,993	74,749,320

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

	Note	As at 31 December	
		2016 RMB'000	2015 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	24	49,188,203	52,867,396
Finance lease liabilities	25	222,353	386,365
Deferred income tax liabilities	14	5,666,533	5,471,821
		55,077,089	58,725,582
Current liabilities			
Trade and other payables	26	27,307,614	25,962,991
Advanced proceeds received		31,903,265	30,766,515
Income tax payable		13,682,645	12,460,061
Borrowings	24	17,755,309	16,953,596
Finance lease liabilities	25	171,420	186,620
Amounts due to related parties	27	27,788,670	24,447,996
Deferred income		–	2,010
		118,608,923	110,779,789
Total liabilities		173,686,012	169,505,371
Total equity and liabilities		261,903,005	244,254,691

The notes on pages 89 to 176 are an integral part of these consolidated financial statements.

The financial statements on pages 82 to 176 were approved by the Board of Directors on 29 March 2017 and were signed on its behalf.

Hui Wing Mau
Director

Hui Sai Tan, Jason
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	Year ended 31 December	
		2016 RMB'000	2015 RMB'000
Revenue	5	59,286,161	57,732,974
Cost of sales	29	(42,937,532)	(41,284,575)
Gross profit		16,348,629	16,448,399
Fair value gains on investment properties	7	1,996,673	2,776,694
Other income/other gains – net	28	838,785	1,570,998
Selling and marketing costs	29	(1,352,643)	(1,615,275)
Administrative expenses	29	(2,742,720)	(3,278,396)
Other operating expenses	29	(268,509)	(288,194)
Operating profit		14,820,215	15,614,226
Finance income		369,832	341,262
Finance costs		(1,545,778)	(1,749,910)
Finance costs – net	30	(1,175,946)	(1,408,648)
Share of results of			
– Associated companies	10	37,584	108,684
– Joint ventures	11	(485,975)	(591,853)
		(448,391)	(483,169)
Profit before income tax		13,195,878	13,722,409
Income tax expense	33	(5,685,493)	(5,563,671)
Profit for the year		7,510,385	8,158,738
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss</i>			
Fair value losses on available-for-sale financial assets, net of tax		(219,911)	(52,530)
Total comprehensive income for the year		7,290,474	8,106,208

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	Note	Year ended 31 December	
		2016 RMB'000	2015 RMB'000
Profit for the year attributable to:			
Equity holders of the Company		5,171,855	6,115,784
Non-controlling interests		2,338,530	2,042,954
		7,510,385	8,158,738
Total comprehensive income for the year attributable to:			
Equity holders of the Company		5,042,283	6,082,102
Non-controlling interests		2,248,191	2,024,106
		7,290,474	8,106,208
Earnings per share for profit attributable to the equity holders of the Company			
– Basic (RMB cents)	34	150.6	176.7
– Diluted (RMB cents)	34	150.4	176.4

The notes on pages 89 to 176 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Note	Attributable to the equity holders of the Company			Non-controlling interests	Total
		Share capital	Reserves	Perpetual capital instruments		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2016		356,275	49,805,385	–	24,587,660	74,749,320
Comprehensive income						
Profit for the year		–	5,171,855	95,000	2,243,530	7,510,385
Other comprehensive income for the year						
<i>Items that may be reclassified to profit or loss</i>						
Fair value losses on available-for-sale financial assets		–	(172,763)	–	(120,451)	(293,214)
Tax on fair value losses on available-for-sale financial assets		–	43,191	–	30,112	73,303
Total comprehensive income for the year		–	5,042,283	95,000	2,153,191	7,290,474
Transfer from joint ventures to subsidiaries		–	–	–	1,229,298	1,229,298
Capital contribution from non-controlling interests	40(f(i))	–	–	–	6,556,880	6,556,880
Changes in ownership interests in subsidiaries without change of control	40(f(ii))	–	116,685	–	(3,043,613)	(2,926,928)
Disposal of subsidiaries		–	–	–	(29,999)	(29,999)
Equity-settled share-based payment						
– Value of employee services	22	–	50,005	–	–	50,005
– Purchase of shares		–	(37,198)	–	–	(37,198)
– Dividends received		–	7,518	–	–	7,518
Perpetual capital instruments	23	–	–	4,405,000	–	4,405,000
Currency translation differences		–	(36)	–	–	(36)
Buy-back of shares						
– Purchase of shares	21	–	(758,374)	–	–	(758,374)
– Dividends received		–	6,455	–	–	6,455
– Cancellation of shares		(7,411)	7,411	–	–	–
Dividends and distributions	35	–	(2,132,947)	–	(192,475)	(2,325,422)
Total transactions with owners		(7,411)	(2,740,481)	4,405,000	4,520,091	6,177,199
Balance at 31 December 2016		348,864	52,107,187	4,500,000	31,260,942	88,216,993

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Note	Attributable to the equity holders of the Company		Non-controlling interests RMB'000	Total RMB'000
		Share capital RMB'000	Reserves RMB'000		
Balance at 1 January 2015		356,275	46,507,104	18,119,705	64,983,084
Comprehensive income					
Profit for the year		–	6,115,784	2,042,954	8,158,738
Other comprehensive income for the year					
<i>Items that may be reclassified to profit or loss</i>					
Fair value losses on available-for-sale financial assets		–	(44,909)	(25,131)	(70,040)
Tax on fair value gains on available-for-sale financial assets		–	11,227	6,283	17,510
Total comprehensive income for the year		–	6,082,102	2,024,106	8,106,208
Capital contribution from non-controlling interests		–	–	5,140,442	5,140,442
Changes in ownership interests in subsidiaries without change of control		–	(345,138)	(645,102)	(990,240)
Equity-settled share-based payment					
– Value of employee services	22	–	92,205	–	92,205
– Purchase of shares		–	(40,184)	–	(40,184)
– Dividend received		–	9,984	–	9,984
Dividends and distributions	35	–	(2,500,688)	(51,491)	(2,552,179)
Total transactions with owners		–	(2,783,821)	4,443,849	1,660,028
Balance at 31 December 2015		356,275	49,805,385	24,587,660	74,749,320

The notes on pages 89 to 176 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	Year ended 31 December	
		2016 RMB'000	2015 RMB'000
Cash flow from operating activities			
Net cash generated from operations	36	5,629,945	10,652,710
Interest received		369,832	341,262
Interest paid		(4,929,302)	(5,275,964)
PRC income tax paid		(4,530,997)	(3,391,855)
Net cash (used in)/generated from operating activities		(3,460,522)	2,326,153
Cash flow from investing activities			
Additions of property and equipment and investment properties		(3,730,726)	(4,033,968)
Disposal of property and equipment		19,899	26,572
Additions of land use rights and other non-current assets		(196,177)	(778,334)
Acquisition of currency options	19	(13,714)	–
Disposal of subsidiaries	40	3,097,913	1,280,450
Acquisition of subsidiaries	40	(154,462)	(3,061,634)
Closure of an associated company		–	1,663
Disposal of an associated company		–	70,514
Acquisition of available-for-sale financial assets	13	(3,100,000)	(70,000)
Capital injection to associated companies	10	(9,606)	(402,250)
Capital injection to joint ventures	11	(663,310)	(2,390,975)
(Increase)/decrease in prepayment for acquisition of equity interests	15	(660,000)	619,800
Advances to joint ventures and associated companies	12	(189,922)	(1,486,274)
Proceeds from investment in structured products issued by banks	28	93,523	–
Net cash used in investing activities		(5,506,582)	(10,224,436)
Cash flow from financing activities			
Proceeds from borrowings and finance lease liabilities		65,178,815	77,999,731
Repayments of borrowings and finance lease liabilities		(69,759,851)	(69,842,585)
Purchase of shares		(37,198)	(40,184)
Disposal derivative financial instruments	19	105,775	–
Buyback of shares		(758,374)	–
Capital contribution from non-controlling interests of subsidiaries		6,556,880	5,140,442
Acquisition of additional interests in subsidiaries		(1,881,928)	(990,240)
Proceeds from perpetual capital instruments		5,100,000	–
Redemption of perpetual capital instruments		(600,000)	–
Distribution to the holders of perpetual capital instruments		(95,000)	–
Dividends paid to the equity holders of the Company		(2,132,947)	(2,875,816)
Dividends paid to non-controlling interests		(192,475)	(51,491)
Increase in amounts due to non-controlling interests	27	2,951,746	1,208,497
Dividends received		13,973	9,984
Decrease/(increase) in restricted cash pledged for borrowings		1,259,756	(560,445)
Net cash generated from financing activities		5,709,172	9,997,893
Net (decrease)/increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		22,591,843	20,471,830
Effect of foreign exchange rate changes		25,264	20,403
Cash and cash equivalents at end of the year	20	19,359,175	22,591,843

The notes on pages 89 to 176 are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1 GENERAL INFORMATION

Shimao Property Holdings Limited (the "Company") was incorporated in the Cayman Islands on 29 October 2004 as an exempted company with limited liability under the Cayman Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company is principally engaged in investment holding. The principal activities of the Company and its subsidiaries (together, the "Group") are property development, property investment and hotel operation in the People's Republic of China (the "PRC").

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 5 July 2006.

These consolidated financial statements are presented in Renminbi, unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"). They have been prepared under the historical cost convention, as modified by the revaluation of investment properties, biological assets, available-for-sale financial assets and derivative financial instruments which are carried at fair value.

The preparation of 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 4.

(i) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- Amendments from annual improvements to HKFRSs – 2012-2014 Cycle, on HKFRS 5, 'Non-current assets held for sale and discontinued operations', HKFRS 7, 'Financial instruments: Disclosures', HKAS 19, 'Employee benefits', HKAS 34, 'Interim financial reporting'
- Amendments to HKAS 16 and HKAS 38, 'Clarification of acceptable methods of depreciation and amortisation'
- Amendments to HKAS 1, 'Disclosure initiative'
- Amendments to HKAS 27, 'Equity method in separate financial statements'
- HKFRS 14, 'Regulatory Deferral Accounts'
- Amendments to HKFRS 11, 'Accounting for acquisitions of interests in joint operations'
- Amendments to HKAS 16 and HKAS 41, 'Agriculture bearer plants'
- Amendments to HKFRS 10, HKFRS 12 and HKAS 28, 'Investment entities: applying the consolidation exceptions'

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.1 Basis of preparation (continued)****(ii) New standards and interpretations not yet adopted**

A number of new standards and amendments to standards and interpretations are issued but not effective for annual periods beginning 1 January 2016, and have not been early adopted.

Currently related to the Group:

		Effective for annual periods beginning on or after
Amendments to HKAS 12	Income taxes	1 January 2017
Amendments to HKAS 7	Statement of cash flows	1 January 2017
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 16	Leases	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has not early adopted any new accounting and financial reporting standards, amendments and interpretations to existing standards which have been issued but are not yet effective for the year ended 31 December 2016. It is not practicable to provide a reasonable estimate of the effect of the application of HKFRS 15, until the Group performs a detailed review. Except for HKFRS 15, the Group does not anticipate that the adoption when they become effective will result in any material impact on the Group's results of operations and financial position.

2.2 Subsidiaries**2.2.1 Consolidation**

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest ("NCI") in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs.

Acquisition-related costs are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2016***2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Subsidiaries (continued)****2.2.1 Consolidation (continued)****(a) Business combinations (continued)**

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (Note 9).

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associated company, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2.2.2 Separate financial statements

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.3 Joint arrangements and associated companies****(i) Joint arrangements**

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Associated companies

An associated company is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associated companies include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associated company, any difference between the cost of the associated company and the Group's share of the net fair value of the associated company's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associated company is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associated company.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associated company is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associated company and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associated companies are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associated companies. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associated companies are recognised in the income statement.

2.4 Segment reporting

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.5 Foreign currency translation****(i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional currency and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the 'finance costs – net', except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

(iii) Group companies

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

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates; and
- All resulting exchange differences are recognised in other comprehensive income.

2.6 Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Buildings comprise hotel buildings and self-use buildings.

Assets under construction are stated at historical cost less impairment losses. Historical cost includes expenditure that is directly attributable to the development of the assets which comprises construction costs, borrowing costs and professional fees incurred during the development period. On completion, the assets are transferred to buildings within property and equipment.

No depreciation is provided for assets under construction. The carrying amount of an asset under construction is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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 costs are charged to the income statement during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their costs less their residual values and impairment loss over their estimated useful lives, as follows:

Buildings	50 years or the remaining lease period of the land use rights, whichever is shorter
Building improvements	10 to 20 years
Furniture and equipment	5 to 12 years
Jet plane and motor vehicles	10 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other income/other gains – net" in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.7 Investment property**

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the income statement as 'fair value gains/losses on investment properties'.

If an entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

If an investment property becomes owner-occupied or commences development with a view to sale, it is reclassified as property and equipment or as properties under development or completed properties held for sale, and the property's deemed cost for subsequent accounting is its fair value at the date of change in use.

If an item of property and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised as a revaluation of property and equipment in equity under HKAS 16. If a property commences an operating lease to another party, it is transferred from properties under development or completed properties held for sale to investment property, and any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

2.8 Intangible assets – goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries/associated companies/joint ventures at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies/joint ventures is included in investments in associated companies/joint ventures. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

2.9 Impairment of investments in subsidiaries, associated companies, joint ventures and non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2016***2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.10 Financial assets****(i) Classification**

The Group classifies its financial assets in the following categories: loans and receivable and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'amounts due from related companies', 'trade and other receivables', 'restricted cash' and 'cash and cash equivalents' in the balance sheet.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the end of the reporting period.

(ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'other income/other gains – net'.

Dividends on available-for-sale equity instruments are recognised in the income statement as part of 'other income/other gains – net' when the Group's right to receive payments is established.

(iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

(iv) Impairment of financial assets

- Loans and receivables

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan and receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

- Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

For derivative financial instruments do not qualify for hedge accounting, changes in fair value are recognised immediately in the consolidated income statement within 'other income/other gains – net'.

The Group has entered into transactions which will mature after 7 years, where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as "day one profit and loss", is not recognised immediately in the consolidated income statement.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the consolidated income statement without reversal of deferred day one profit and loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2016***2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.12 Properties under development**

Properties under development are stated at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Development cost of properties comprises cost of land use rights, construction costs, borrowing costs and professional fees incurred during the development period. On completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

2.13 Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value.

Cost comprises development costs attributable to the unsold properties.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing marketing conditions.

2.14 Biological assets

Biological assets are measured at the end of each reporting period at their fair value less costs to sell, with any gain or loss recognised in profit or loss for the period in which it arises. Biological assets are current assets if they are to be sold within one year. The fair value of biological assets is determined based on market value and determined independently by professional valuers.

2.15 Trade and other receivables

Trade receivables are amounts due from customers for properties sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2.10(b) for further information about the Group's accounting for trade receivables and Note 2.10(d) for a description of the Group's impairment policies.

2.16 Cash and cash equivalents

Cash and cash equivalents include cash in hand, call deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.17 Share capital

Ordinary shares are classified as equity.

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

Where any group company purchases the Company's share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to equity holders of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.18 Perpetual capital instruments

Perpetual capital instruments with no contractual obligation to repay its principal or to pay any distribution are classified as part of equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.19 Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.21 Borrowings cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency and forward currency rates at the inception of the borrowings.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and are limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

2.22 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries, associated companies and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2016***2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.22 Current and deferred income tax (continued)**

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associated companies and joint ventures, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.23 Employee benefits**(i) Employee leave entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administered funds managed by the PRC government.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

(iii) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the shares/options is recognised as costs of assets or expenses to whichever the employee service is attributable.

Under the long term incentive scheme, the fair value of shares granted to eligible employees for their services is based on the share price at the grant date.

Under the share option scheme, the fair value of the options granted to the eligible employees for their services rendered is determined by reference to:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.23 Employee benefits (continued)****(iii) Equity-settled share-based payment transactions (continued)**

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total cost/expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

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

When shares are vested, the Company issues shares from treasury shares. When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2.24 Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.25 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of properties and services in the ordinary course of the Group's activities. Revenue is shown, net of discounts and after eliminating sales with the Group companies. Revenue is recognised as follows:

(i) Sales of properties

Revenue from sales of properties is recognised when the risks and rewards of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement and collectibility of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated balance sheet under current liabilities.

(ii) Property management services

Revenue arising from property management services is recognised in the accounting period in which the services are rendered.

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(iv) Rental income

Rental income from properties letting under operating leases is recognised on a straight line basis over the lease terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2016***2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.25 Revenue recognition** *(continued)***(v) Hotel operation income**

Hotel operation income which includes rooms rental, food and beverage sales and other ancillary services is recognised when the services are rendered.

(vi) Commission income

Commission income from concessionaire sales is recognised upon sales of goods by the relevant stores.

(vii) Dividend income

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

2.26 Government grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property and equipment and land use rights are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight line basis over the expected lives of the related assets.

2.27 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(i) The Group is the lessee other than operating lease of land use rights

Payments made under operating leases (net of any incentives received from the lessor), are charged to the income statement on a straight-line basis over the period of the lease.

(ii) The Group is the lessee under operating lease of land use rights

The Group made upfront payments to obtain operating leases of land use rights on which properties will be developed.

For land use rights to be developed for investment properties and properties for sale, the upfront payments are included in the cost of investment properties and properties under development or completed properties held for sale respectively.

For land use rights to be developed for pastoral station lease rights, the lease rights are shown at historical cost. Lease rights acquired in a business combination are recognised at fair value at the acquisition date. Certain lease rights that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and carried at cost less accumulated impairment losses.

For land use rights to be developed for hotel properties and self-use buildings, the upfront payments are separately recorded in balance sheet as 'land use rights', and amortised over the leasing periods on a straight line basis. The amortisation during the period of construction of the properties is capitalised as the cost of assets under construction.

(iii) The Group is the lessor

Assets leased out under operating leases are included in investment property in the consolidated balance sheet.

2.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.29 Insurance contracts

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk is a pre-existing risk transferred from the policyholder to the insurer, and is significant only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

The Group assesses at each reporting date whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in the consolidated income statement.

The Group regards its financial guarantee contracts provided in respect of mortgage facilities for certain property purchasers and financial guarantee contracts provided to its related parties as insurance contracts.

2.30 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries, associated companies and joint ventures to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the company's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgement. Any increase in the liability relating to guarantees is reported in the consolidated income statement within other operating expenses.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group's businesses are principally conducted in RMB, except that certain receipts of proceeds from sales of properties, public share and notes offerings and certain bank borrowings are in other foreign currencies. The major non-RMB assets and liabilities are borrowings and bank deposits denominated in Hong Kong dollar ("HK dollar", or "HK\$") and the United States dollar ("US dollar", or "US\$").

The Company and all of its subsidiaries' functional currency is RMB, so that the fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's results of operations. For the year ended 2016, the Group manages its foreign exchange risk by using foreign currency forward and option contracts. Such contracts have the economic effect of setting a strike rate for agreed amount of foreign currency amount. Under these contracts, the Group agrees with a third party to exchange, at specified intervals, the difference between strike and spot exchange rate amounts calculated by reference to the agreed notional amount.

As at 31 December 2016, if RMB had strengthened/weakened by 5%, against US dollar and HK dollar with all other variables held constant, post-tax profit for the year would have been RMB1,065,767,000 (2015: RMB1,544,771,000) higher/lower, mainly as a result of net foreign exchange gains/losses on translation of US dollar and HK dollar denominated bank deposits, senior notes and bank borrowings.

(ii) Price risk

The Group is exposed to equity securities price risk from the Group's available-for-sale financial assets which are publicly traded. The performance of the listed equity securities of the Group is closely monitored.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3 FINANCIAL RISK MANAGEMENT (CONTINUED)**(a) Market risk (continued)****(iii) Cash flow and fair value interest rate risk**

Except for cash deposits in the banks, the Group has no other significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, especially long-term borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The interest rate and terms of repayments of borrowings are disclosed in Note 24. The Group manages certain of its fair value interest rate risk by using fixed-to-floating interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from fixed rates to floating rates. As at 31 December 2016, the Group converted no borrowings from fixed rate to floating rate through interest rate swap (2015: US\$300,000,000) (Note 24).

The Group analyses its interest rate exposure taking into consideration of refinancing, and renewal of existing position. Based on the above consideration, the Group calculates the impact on profit and loss of a defined interest rate change.

The Group does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates as the interest rates of bank deposits are not expected to change significantly.

If interest rates on RMB denominated variable rate borrowings had been 100 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been RMB111,045,000(2015: RMB120,628,000) lower/higher mainly as a result of higher/lower interest expenses on borrowings with variable rates as at 31 December 2016. If interest rates on US dollar and HK dollar denominated variable rate borrowings had been 100 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been RMB44,059,000(2015: RMB173,107,000) lower/higher mainly as a result of higher/lower interest expenses on borrowings with variable rates as at 31 December 2016.

(b) Credit risk

The Group has no concentrations of credit risk. The extent of the Group's credit exposure is represented by the aggregate balance of restricted cash, cash and cash equivalents, derivative financial instrument, trade and other receivables and amounts due from related parties.

Cash transactions are limited to high-credit-quality institutions. The table below shows the bank deposit balances of the major counterparties as at 31 December 2016.

Counterparty	Rating (Note)	As at 31 December	
		2016 RMB'000	2015 RMB'000
Bank A	BBB	2,641,974	2,798,300
Bank B	Baa2	2,519,347	1,963,211
Bank C	A	2,183,976	3,760,289
Bank D	A	1,876,057	1,714,856
Bank E	A	1,745,825	1,805,246

Note: The source of credit rating is from Standard and Poor's & Moody's.

The Group has policies in place to ensure that sales of properties are made to buyers with an appropriate financial strength and appropriate percentage of down payment. Meanwhile, the Group has the right to cancel the sales contract in the event that the buyers default in payment, and put the underlying properties back to the market for re-sales. Therefore, the credit risk from sales of properties is limited. Other receivables mainly comprise bidding deposits for land use rights and prepaid tax with limited credit risk.

(c) Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its operation needs and commitments in respect of property projects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3 FINANCIAL RISK MANAGEMENT (CONTINUED)**(c) Liquidity risk (continued)**

Cash flow forecast is performed by management of the Group. Management monitors the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecast mainly takes into consideration the Group's operational cash flows, construction of investment properties and hotel projects, committed payments for land use rights and contracted development expenditures, the Group's debt financing plans, covenant compliance and internal balance sheet ratio targets.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 31 December 2016					
Borrowings and interest payments	20,723,802	8,800,975	35,357,031	13,910,404	78,792,212
Finance lease liabilities	200,824	200,586	38,004	–	439,414
Trade and other payables (excluding other taxes payables)	26,178,120	12,139	34,699	11,903	26,236,861
Amounts due to related parties	27,788,670	–	–	–	27,788,670
	74,891,416	9,013,700	35,429,734	13,922,307	133,257,157
As at 31 December 2015					
Borrowings and interest payments	20,316,626	13,046,671	30,719,826	20,009,276	84,092,399
Finance lease liabilities	210,250	213,446	248,832	–	672,528
Trade and other payables (excluding other taxes payables)	24,587,270	3,312	10,021	27,719	24,628,322
Amounts due to related parties	24,447,996	–	–	–	24,447,996
	69,562,142	13,263,429	30,978,679	20,036,995	133,841,245

Note: The interest on borrowings is calculated based on borrowings outstanding as at 31 December 2016 and 2015 without taking into account of future issues. Floating-rate interest is estimated using the applicable interest rate as at 31 December 2016 and 2015 respectively.

The amount of derivative financial instruments is measured at fair value at 31 December 2016 and 31 December 2015.

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, issue new shares or sell assets/subsidiaries to reduce debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3 FINANCIAL RISK MANAGEMENT (CONTINUED)**(e) Fair value estimation**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2016. See Note 7 for disclosures of the investment properties that are measured at fair value.

As at 31 December 2016	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Biological assets	–	298,133	–	298,133
Derivative financial instruments	–	–	90,199	90,199
Available-for-sale financial assets				
– equity securities	133,875	–	730,281	864,156
– investment in structured products issued by banks	–	–	3,077,100	3,077,100

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2015.

As at 31 December 2015	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Derivative financial instruments	–	–	41,782	41,782
Available-for-sale financial assets				
– equity securities	134,470	–	1,000,000	1,134,470

There was no transfers within different level during the year.

Biological assets included in Level 2 are cattle located in Western Australia since no significant adjustments need to be made to the prices obtained from the local markets.

Derivative financial instruments included in Level 3 as at 31 December 2016 are six currency option contracts and four currency forward contracts with the Morgan Stanley & Co International PLC ("Morgan Stanley"), the fair value of which is determined using valuation models for which not all inputs are market observable prices or rates.

Derivative financial instruments included in Level 3 as at 31 December 2015 are two interest rate swap contracts entered into with a commercial bank, the fair value of which is determined using valuation models for which not all inputs are market observable prices or rates.

Available-for-sale financial assets included in Level 1 are the equity securities traded in Shanghai Stock Exchange, the fair value of which is based on quoted market prices at the balance sheet date.

Available-for-sale financial assets included in Level 3 are the restricted shares of Wanda Cinema Line Co., Ltd. ("Wanda Cinema Line") (Note 13) traded in Shenzhen Stock Exchange with one year lock-up period, the fair value of which is determined using valuation model for which not all inputs are market observable rates, and the investment in structured products issued by banks entered into with commercial banks, the fair value of which are determined using valuation model for which not all inputs are market observable rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair value estimation (continued)

Biological assets in inventories at fair value through profit or loss

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Opening balances of assets	–	–
Addition	298,133	–
Fair value gains recognised in the income statement	–	–
Closing balances of assets	298,133	–

Available-for-sale financial assets at fair value

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Opening balances of assets	1,134,470	204,510
Addition	3,100,000	1,000,000
Fair value losses recognised in other comprehensive income	(293,214)	(70,040)
Closing balances of assets	3,941,256	1,134,470
Changes in unrealised gains, under 'Other comprehensive income'	(293,214)	(70,040)

Derivatives at fair value through profit or loss

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Opening balances of assets/(liabilities)	41,782	(1,611)
Acquisition of currency options and forwards	13,714	–
Gain recognised in the income statement (Note 28)	140,478	43,393
Disposal of interest rate swap	(105,775)	–
Closing balances of assets	90,199	41,782
Changes in realised gains, under 'Other income/other gains – net'	63,993	–
Changes in unrealised gains, under 'Other income/other gains – net'	76,485	43,393

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3 FINANCIAL RISK MANAGEMENT (CONTINUED)**(f) Financial instruments by category**

Financial assets	As at 31 December	
	2016 RMB'000	2015 RMB'000
Other financial assets at amortised cost:		
– Trade and other receivables	6,949,095	7,730,152
– Amounts due from related parties	4,546,545	4,356,623
– Restricted cash	2,875,658	3,817,713
– Cash and cash equivalents	19,359,175	22,591,843
Assets at fair value through the profit and loss:		
– Derivative financial instruments	90,199	41,782
– Available-for-sale financial assets	3,941,256	1,204,470
Total	37,761,928	39,742,583

Financial liabilities	As at 31 December	
	2016 RMB'000	2015 RMB'000
Other financial liabilities at amortised cost:		
– Borrowings	66,943,512	69,820,992
– Finance lease liabilities	393,773	572,985
– Trade and other payables (excluding other taxes payable)	26,236,861	24,628,322
– Amounts due to related parties	27,788,670	24,447,996
Total	121,362,816	119,470,295

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the financial statements 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.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes and deferred tax assets

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the provision for income tax. 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 differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(b) Land appreciation tax

The Group is subject to land appreciation tax in the PRC. However, the implementation and settlement of the tax varies among different tax jurisdictions in various cities of the PRC, and the Group has not finalised its land appreciation tax calculation and payments with any local tax authorities in the PRC. Accordingly, significant judgement is required in determining the amount of the land appreciation and its related tax. The Group recognised the land appreciation tax based on management's best estimates according to the understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the current income tax and deferred income tax provisions in the periods in which such tax is finalised with local tax authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**4.1 Critical accounting estimates and assumptions** (continued)**(c) Impairment of goodwill**

The Group tests at least annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on the higher of the fair value (less cost to sell) and value in use calculation of the underlying assets, mainly properties. The fair value of the properties, when applicable, is determined by independent valuers. For a listed cash-generating unit ("CGU"), the fair value less cost to sell is determined by the value in use. These valuations and calculations require the use of estimates.

(d) Fair value of investment properties

The fair value of investment properties is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in Note 7.

(e) Provision for properties under development and completed properties held for sale

The Group assesses the carrying amounts of properties under development and completed properties held for sale according to their net realisable value based on the realisability of these properties, taking into account costs to completion based on past experience and net sales value based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised. The assessment requires the use of judgement and estimates.

(f) Impairment of trade receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows to determine impairment loss. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective increase rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, an impairment loss may arise.

(g) Fair value of derivatives financial instruments

The Group's derivative financial instruments are interest rate swap contracts, currency option contracts and currency forward contracts entered into with commercial banks, the fair value of which are determined using valuation models for which not all inputs are market observable prices or rates.

4.2 Critical judgements in applying the Group's accounting policy**Classification between investment properties and owner-occupied properties**

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement.

Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

5 SEGMENT INFORMATION

The CODM has been identified as the management committee. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

As majority of the Group's consolidated revenue and results are attributable to the market in the PRC and most of the Group's consolidated assets are located in the PRC, therefore no geographical information is presented.

The CODM assesses the performance of the operating segments based on a measure of revenue and profit before tax. The information provided to the CODM is measured in a manner consistent with that in the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5 SEGMENT INFORMATION (CONTINUED)**(a) Revenue**

Turnover of the Group consists of the following revenue recognised during the year:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Sales of properties	56,196,877	54,594,513
Hotel operation income	1,466,201	1,301,986
Rental income from investment properties	710,357	739,249
Others	912,726	1,097,226
	59,286,161	57,732,974

(b) Segment information

Year ended 31 December 2016

	Property development and investment				Total RMB'000
	Shanghai Shimao Co., Ltd. ("Shanghai Shimao")* RMB'000	Others RMB'000	Hotel operation RMB'000	Unallocated** RMB'000	
Revenue					
– Sales of properties	12,675,709	43,521,168	–	–	56,196,877
– Hotel operation income	125,671	–	1,340,530	–	1,466,201
– Rental income from investment properties	553,584	156,773	–	–	710,357
– Others	353,061	559,665	–	–	912,726
Total revenue	13,708,025	44,237,606	1,340,530	–	59,286,161
Operating profit/(loss)	4,832,976	10,443,296	133,226	(589,283)	14,820,215
Finance income	87,723	267,225	842	14,042	369,832
Finance costs	(148,120)	(416,390)	(1,269)	(979,999)	(1,545,778)
Share of results of					
– Associated companies	(84,754)	122,338	–	–	37,584
– Joint ventures	(87,885)	(398,090)	–	–	(485,975)
Profit/(loss) before income tax	4,599,940	10,018,379	132,799	(1,555,240)	13,195,878
Income tax expense					(5,685,493)
Profit for the year					7,510,385
Other segment items are as follows:					
Capital and property development expenditure	18,763,299	35,172,000	548,656	–	54,483,955
Fair value gains on investment properties	1,251,562	745,111	–	–	1,996,673
Fair value gain on derivative financial instruments	–	140,478	–	–	140,478
Write-off of intangible assets	–	26	–	–	26
Depreciation	45,710	96,111	254,436	33,892	430,149
Amortisation of land use rights	7,009	1,208	75,963	–	84,180
Provision for impairment of receivables	57,362	–	–	–	57,362

* The Group owns an effective equity interest of 58.92% in Shanghai Shimao as at 31 December 2016

** Unallocated mainly represent corporate level activities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5 SEGMENT INFORMATION (CONTINUED)**(b) Segment information** (continued)

The segment assets and liabilities at 31 December 2016 are as follows:

	Property development and investment			Total RMB'000
	Shanghai Shimao RMB'000	Others RMB'000	Hotel operation RMB'000	
Associated companies	169	912,296	–	912,465
Joint ventures	2,066,922	7,116,503	–	9,183,425
Intangible assets	1,709,730	–	130,928	1,840,658
Other segment assets	73,525,911	151,943,817	16,148,122	241,617,850
Total segment assets	77,302,732	159,972,616	16,279,050	253,554,398
Deferred income tax assets				2,298,849
Available-for-sale financial assets				3,941,256
Derivative financial instruments				90,199
Other assets				2,018,303
Total assets				261,903,005
Borrowings	15,456,370	22,128,581	586,400	38,171,351
Other segment liabilities	30,981,287	56,813,299	12,564,720	100,359,306
Total segment liabilities	46,437,657	78,941,880	13,151,120	138,530,657
Corporate borrowings				28,772,161
Deferred income tax liabilities				5,666,533
Other liabilities				716,661
Total liabilities				173,686,012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

Year ended 31 December 2015

	Property development and investment		Hotel operation RMB'000	Unallocated** RMB'000	Total RMB'000
	Shanghai Shimao* RMB'000	Others RMB'000			
Revenue					
– Sales of properties	13,783,760	40,810,753	–	–	54,594,513
– Hotel operation income	81,765	–	1,220,221	–	1,301,986
– Rental income from investment properties	536,236	203,013	–	–	739,249
– Others	687,196	410,030	–	–	1,097,226
Total revenue	15,088,957	41,423,796	1,220,221	–	57,732,974
Operating profit/(loss)	5,071,634	10,745,825	204,904	(408,137)	15,614,226
Finance income	52,431	286,115	760	1,956	341,262
Finance costs	(165,276)	(363,806)	(13,707)	(1,207,121)	(1,749,910)
Share of results of					
– Associated companies	(9,132)	117,816	–	–	108,684
– Joint ventures	(15,233)	(576,620)	–	–	(591,853)
Profit/(loss) before income tax	4,934,424	10,209,330	191,957	(1,613,302)	13,722,409
Income tax expense					(5,563,671)
Profit for the year					8,158,738
Other segment items are as follows:					
Capital and property development expenditure	15,377,886	37,171,311	856,457	–	53,405,654
Fair value gains on investment properties	962,248	1,814,446	–	–	2,776,694
Fair value gain on derivative financial instruments	–	43,393	–	–	43,393
Depreciation	73,913	77,342	243,895	34,916	430,066
Amortisation of land use rights	10,035	2,360	61,568	–	73,963
Provision for impairment of receivables	82,218	–	–	–	82,218

* The Group owns an effective equity interest of 58.92% in Shanghai Shimao as at 31 December 2015

** Unallocated mainly represent corporate level activities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5 SEGMENT INFORMATION (CONTINUED)**(b) Segment information** (continued)

The segment assets and liabilities at 31 December 2015 are as follows:

	Property development and investment		Hotel operation RMB'000	Total RMB'000
	Shanghai Shimao RMB'000	Others RMB'000		
Associated companies	117,922	780,353	–	898,275
Joint ventures	2,150,523	7,634,375	–	9,784,898
Intangible assets	1,709,730	26	130,928	1,840,684
Other segment assets	58,821,128	153,557,579	14,111,129	226,489,836
Total segment assets	62,799,303	161,972,333	14,242,057	239,013,693
Deferred income tax assets				1,983,977
Available-for-sale financial assets				1,204,470
Derivative financial instruments				41,782
Other assets				2,010,769
Total assets				244,254,691
Borrowings	14,444,947	31,268,177	174,000	45,887,124
Other segment liabilities	22,951,542	61,265,564	9,501,369	93,718,475
Total segment liabilities	37,396,489	92,533,741	9,675,369	139,605,599
Corporate borrowings				23,933,868
Deferred income tax liabilities				5,471,821
Other liabilities				494,083
Total liabilities				169,505,371

Total segment assets consist primarily of property and equipment, investment properties, land use rights, other non-current assets, properties under development, completed properties held for sale, receivables, prepayments and cash balances. They also include goodwill recognised arising from acquisition of subsidiaries relating to respective segments. They exclude corporate assets, deferred income tax assets, available-for-sale financial assets and derivative financial instruments.

Total segment liabilities comprise operating liabilities. They exclude corporate liabilities, corporate borrowings and deferred income tax liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

6 PROPERTY AND EQUIPMENT

	Assets under construction RMB'000	Hotel buildings and improvements RMB'000	Furniture and equipment RMB'000	Jet plane and motor vehicles RMB'000	Self-use buildings RMB'000	Total RMB'000
Cost						
At 1 January 2016	3,117,719	9,211,844	417,478	447,218	1,034,054	14,228,313
Additions	482,850	2,126	77,995	8,093	148,609	719,673
Acquisition of subsidiaries	–	–	25,734	2,744	–	28,478
Disposal of subsidiaries	–	–	(9,160)	(1,390)	–	(10,550)
Disposals	–	(8,775)	(26,082)	(11,979)	(22,732)	(69,568)
Transfer from properties under development and completed properties held for sale	687,975	939,128	–	–	–	1,627,103
Transfer upon completion	(511,531)	511,531	–	–	–	–
At 31 December 2016	3,777,013	10,655,854	485,965	444,686	1,159,931	16,523,449
Accumulated depreciation						
At 1 January 2016	–	2,182,843	195,259	156,593	121,674	2,656,369
Charge for the year	–	288,947	68,715	27,914	44,573	430,149
Disposal of subsidiaries	–	–	(5,785)	(1,183)	–	(6,968)
Disposals	–	(7,015)	(24,717)	(10,159)	(7,868)	(49,759)
At 31 December 2016	–	2,464,775	233,472	173,165	158,379	3,029,791
Net book value						
At 31 December 2016	3,777,013	8,191,079	252,493	271,521	1,001,552	13,493,658

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6 PROPERTY AND EQUIPMENT (CONTINUED)

	Assets under construction RMB'000	Hotel buildings and improvements RMB'000	Furniture and equipment RMB'000	Jet plane and motor vehicles RMB'000	Self-use buildings RMB'000	Total RMB'000
Cost						
At 1 January 2015	3,710,902	8,557,275	468,818	463,446	1,049,622	14,250,063
Additions	810,482	16,806	92,947	4,094	27,587	951,916
Acquisition of subsidiaries	-	-	542	3,902	-	4,444
Disposal of subsidiaries	(10,951)	-	(124,498)	-	(23,205)	(158,654)
Disposals	-	-	(20,331)	(24,224)	-	(44,555)
Transfer to properties under development and completed properties held for sale	(754,951)	-	-	-	(19,950)	(774,901)
Transfer upon completion	(637,763)	637,763	-	-	-	-
At 31 December 2015	3,117,719	9,211,844	417,478	447,218	1,034,054	14,228,313
Accumulated depreciation						
At 1 January 2015	-	1,902,274	162,770	143,427	89,889	2,298,360
Charge for the year	-	280,569	72,251	30,381	46,865	430,066
Acquisition of subsidiaries	-	-	46	-	-	46
Disposal of subsidiaries	-	-	(33,745)	-	(12,911)	(46,656)
Disposals	-	-	(6,063)	(17,215)	-	(23,278)
Transfer to properties under development and completed properties held for sale	-	-	-	-	(2,169)	(2,169)
At 31 December 2015	-	2,182,843	195,259	156,593	121,674	2,656,369
Net book value						
At 31 December 2015	3,117,719	7,029,001	222,219	290,625	912,380	11,571,944

Depreciation charge of RMB430,149,000 for the year ended 31 December 2016 (2015: RMB430,066,000) has been recorded in cost of sales and administrative expenses in the consolidated statement of comprehensive income (Note 29).

As at 31 December 2016, assets under construction and buildings of the Group with a total carrying amount of RMB2,163,756,000 (2015: RMB2,277,722,000) were pledged as collateral for certain borrowings of the Group (Note 24).

For the year ended 31 December 2016, the Group has capitalised borrowing costs amounting to RMB188,943,000 (2015: RMB145,736,000) in assets under construction. Borrowing costs were capitalised at the weighted average rate of 5.67% (2015: 6.70%).

For the year ended 31 December 2015, certain subsidiaries of the Company entered into sales and lease back agreements with third parties, whereby hotel facilities carried at RMB309,965,000 were sold at RMB570,000,000 and leased back for three to five years at a total lease payment of RMB572,985,000. For the year ended 31 December 2016, no such agreement were entered into. The remaining payment of the total lease is RMB393,773,000 as at 31 December 2016 (Note 25). These subsidiaries have a repurchase option to reacquire the title of the hotel facilities at prices that are much lower than the market price upon the completion of the lease term. During such lease term and before the exercise of the completion repurchase option, such facilities are restricted under the agreements whereby lessor's consent must be obtained for the pledge or disposal of these assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

7 INVESTMENT PROPERTIES

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Opening balance at 1 January	30,025,297	26,975,771
Additions – Transfer from properties under development	–	1,437,077
Additions – Construction cost and others	3,196,416	3,262,460
Transfer to properties under development	(349,473)	(4,426,705)
Disposal (Note 40(b)(iii))	(2,598,000)	–
Fair value gains	1,996,673	2,776,694
Closing balance at 31 December	32,270,913	30,025,297

As at 31 December 2016, investment properties under construction of approximately RMB2,204,273,000 were measured at cost, because their constructions were at very early stage and related fair values were not reliably determinable (31 December 2015: approximately RMB1,572,482,000). These investment properties under development shall be measured at cost until either their fair values become reliably determinable or development is completed, whichever is earlier.

(a) Amounts recognised in profit and loss for investment properties

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Rental income	710,357	739,249
Direct operating expenses from properties that generated rental income (Note 29)	29,741	62,245
Direct operating expenses from properties that did not generate rental income (Note 29)	4,753	5,153

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7 INVESTMENT PROPERTIES (CONTINUED)**(b) Valuation**

The following table analyses the investment properties carried at fair value, by valuation method and fair value hierarchy as at 31 December 2016 and 2015.

Description	Fair value measurements at 31 December 2016 using		
	Quoted prices in active markets for identical assets (Level 1) RMB'000	Significant other observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
Recurring fair value measurements Investment properties: – Commercial buildings – China	–	–	30,066,640

Description	Fair value measurements at 31 December 2015 using		
	Quoted prices in active markets for identical assets (Level 1) RMB'000	Significant other observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
Recurring fair value measurements Investment properties: – Commercial buildings – China	–	–	28,452,815

There were no transfers between Levels 1, 2 and 3 during the year.

Fair value measurements using significant unobservable inputs (Level 3)

	31 December 2016 Significant unobservable Inputs-Commercial buildings – China (Level 3)		
	Completed investment properties RMB'000	Investment properties under development RMB'000	Total RMB'000
Opening balance	21,562,800	6,890,015	28,452,815
Additions	184,019	2,031,133	2,215,152
Transfer from under development to completed investment properties	1,420,000	(1,420,000)	–
Disposal	(2,598,000)	–	(2,598,000)
Net gains from fair value adjustment	747,581	1,249,092	1,996,673
Closing balance	21,316,400	8,750,240	30,066,640

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7 INVESTMENT PROPERTIES (CONTINUED)**(b) Valuation (continued)****Fair value measurements using significant unobservable inputs (Level 3) (continued)**

	31 December 2015		
	Significant unobservable Inputs-Commercial buildings – China (Level 3)		
	Completed investment properties RMB'000	Investment properties under development RMB'000	Total RMB'000
Opening balance	17,381,150	8,012,251	25,393,401
Additions	3,654,269	833,951	4,488,220
Transfer to properties under development	–	(4,205,500)	(4,205,500)
Net gains from fair value adjustment	527,381	2,249,313	2,776,694
Closing balance	21,562,800	6,890,015	28,452,815

Valuation processes of the Group

The Group's investment properties were valued at 31 December 2016 and 2015 by independent and professionally qualified valuers, Vigers Appraisal & Consulting Limited ("Vigers"), who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued. For all the investment properties, their current use equates to the best use.

The Group's finance department includes a team that review the valuations performed by the independent valuers for financial reporting purposes. Discussions of valuation processes and results are held between the financial department and the valuation team at least once every six months, in line with the Group's interim and annual reporting dates. This team reports directly to the executive directors and the audit committee.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report;
- Assess property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuer.

Valuation techniques

For completed investment properties, the fair values were determined using term and reversionary method on the basis of capitalisation of net rental income derived from the existing tenancies and the reversionary value by reference to recent comparable sales transactions or capitalisation of comparable market rents in the relevant property market. The significant unobservable inputs adopted in the valuation included market prices, market rents, term and reversionary yields.

For investment properties under development, the valuation was determined using residual method by making reference to market capitalisation rates and recent comparable sales transactions on the assumption that the property had already been completed in accordance with latest development scheme at the valuation date by deducting the estimated costs to be incurred to complete the project and the developer's estimated profit and margin.

There were no changes to the valuation techniques during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7 INVESTMENT PROPERTIES (CONTINUED)

(b) Valuation (continued)

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

Description	Fair value at 31 Dec 2016 (RMB'000)	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair value
Completed commercial buildings – China	21,316,400	Term and reversionary method	Market prices	RMB8,000 – RMB128,125 per sq.m (RMB36,001 per sq.m)	The higher the market prices, the higher the fair value
			Market rents	RMB4 – RMB363 per sq.m (RMB101 per sq.m)	The higher the market rents, the higher the fair value
			Term yields	4.50% – 8.58% (6.05%)	The higher the term yields, the lower the fair value
			Reversionary yields	5.00% – 8.83% (6.25%)	The higher the reversionary yields, the lower the fair value
Commercial buildings – China (under development)	8,750,240	Discounted cash flows with estimated costs to complete	Market prices	RMB19,146 – RMB41,750 per sq.m (RMB31,903 per sq.m)	The higher the market prices, the higher the fair value
			Estimated costs to be incurred	RMB843 – RMB14,422 per sq.m (RMB8,210 per sq.m)	The higher the estimated costs to be incurred, the lower the fair value.
			Yields	4.75% (4.75%)	The higher the capitalisation rate, the lower the fair value
<hr/>					
Description	Fair value at 31 Dec 2015 (RMB'000)	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair value
Completed commercial buildings – China	21,562,800	Term and reversionary method	Market prices	RMB16,307 – RMB111,143 per sq.m (RMB49,809 per sq.m)	The higher the market prices, the higher the fair value
			Market rents	RMB4 – RMB775 per sq.m (RMB107 per sq.m)	The higher the market rents, the higher the fair value
			Term yields	4.50% – 8.58% (6.03%)	The higher the term yields, the lower the fair value
			Reversionary yields	4.75% – 8.83% (6.17%)	The higher the reversionary yields, the lower the fair value
Commercial buildings – China (under development)	6,890,015	Residual method	Market price	RMB11,600 – RMB34,793 per sq.m (RMB22,462 per sq.m)	The higher the market prices, the higher the fair value
			Estimated costs to be incurred	RMB1,278 – RMB10,324 per sq.m (RMB5,001 per sq.m)	The higher the estimated costs to be incurred, the lower the fair value.
			Yields	4.35% – 4.75% (4.62%)	The higher the capitalisation rate, the lower the fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7 INVESTMENT PROPERTIES (CONTINUED)**(b) Valuation** (continued)**Information about fair value measurements using significant unobservable inputs (Level 3)** (continued)

There are inter-relationships between unobservable inputs. For investment property under construction, increases in construction costs that enhance the property's features may result in an increase of future market prices. An increase in future market prices may be linked with higher costs. There is no indication that any slight increases/(decreases) in market prices in isolation would result in a significantly higher/(lower) fair value of the investment properties.

(c) Pledge

As at 31 December 2016, the Group's investment properties were held in the PRC on leases of between 10 to 50 years. Investment properties with a carrying amount of RMB12,630,800,000 (2015: RMB12,422,023,000) were pledged as collateral for the Group's borrowings (Note 24).

(d) Leasing arrangements

Some of the investment properties are leased to tenants under long term operating leases with rentals receivable monthly. Minimum lease rental receivable under non cancellable operating leases of investment properties are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within one year	532,697	525,528
Later than one year but no later than 5 years	1,350,493	1,209,533
Later than 5 years	854,733	845,737
	2,737,923	2,580,798

8 LAND USE RIGHTS

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Land use rights relating to property and equipment under non-current assets		
Opening balance	7,921,887	7,286,582
Additions – assets group in Western Australia (Note 16(c) and Note 40(e))	199,023	–
Additions – others	196,177	851,825
Disposal of a subsidiary with loss of control	–	(25,761)
Amortisation (Note 29)	(84,180)	(73,963)
Transfer to properties under development and completed properties held for sale	(14,336)	(116,796)
	8,218,571	7,921,887

Land use rights comprise cost of acquiring rights to use certain land, which are all located in the PRC and Australia, for assets under construction, hotel buildings, self-use buildings over fixed periods or over indefinite time.

As at 31 December 2016, land use rights of RMB1,647,135,000 (2015: RMB2,045,086,000) were pledged as collateral for the Group's borrowings (Note 24).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

9 INTANGIBLE ASSETS

Intangible assets comprise goodwill arising from acquisitions:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Opening balance	1,840,684	1,840,684
Write-off of goodwill recognised as expenses (Note 29)	(26)	–
Ending balance	1,840,658	1,840,684

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment. A segment level summary of the goodwill is presented below:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Property development and investment – Shanghai Shimao	1,709,730	1,709,730
Property development and investment – Others	–	26
Hotel operation	130,928	130,928
	1,840,658	1,840,684

The recoverable amounts of CGUs are determined based on the higher of fair values (less cost to sale) and value-in-use calculation.

In view of volatility of the PRC stock market and that the market value of Shanghai Shimao was lower than its net book value as at 31 December 2016 and 2015, goodwill of CGU – Property development and investment – Shanghai Shimao was tested for impairment using the higher of value-in-use by discounted cash flow projection and the fair value (equivalent to the market value) less costs to sell. The value-in-use calculation used pre-tax cash flow projections based on approved budgets covering an eight-year period. Cash flows beyond the eight-year period are extrapolated using the estimated long term growth rate of revenue.

As at 31 December 2016 and 2015, the fair values of other property development and investment CGUs are determined according to the value of the underlying properties and decrease along with the sales of underlying properties, and the attributable goodwill is written off accordingly in other operating expenses in the consolidated income statement.

As at 31 December 2016 and 2015, the fair values of hotel operation are valued by independent professionally qualified valuers who held a recognised relevant professional qualification and have recent experience in the locations and segments of the hotels valued.

For property development and investment – Shanghai Shimao, the key assumptions, gross margin excluding land appreciation tax, long term growth rate of revenue and discount rate used in the value-in-use calculation in 2016 and 2015 are as follows:

	Year ended 31 December	
	2016	2015
Gross margin excluding land appreciation tax	34.3%	31.9%
Long term growth rate of revenue	3.0%	3.0%
Pre-tax discount rate	17.4%	17.4%

These assumptions have been used for the analysis of Shanghai Shimao CGU within the operating segment.

Gross margin is the average margin as a percentage of revenue over the eight-year forecast period. It is based on the current sales margin.

The long term growth rate of revenue used is consistent with the industry outlook. The discount rate used is pre-tax and reflects specific risks relating to the relevant operating segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

10 ASSOCIATED COMPANIES

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Share of net assets:		
Opening balance	898,275	1,258,029
Capital injection (Note (a))	9,606	402,250
Transfer from subsidiaries	–	33,000
Transfer from a joint venture	–	30,609
Transfer to a subsidiary (Note 40(a))	(33,000)	(903,024)
Share of results	37,584	108,684
Disposal	–	(28,835)
Closure	–	(2,438)
Ending balance	912,465	898,275

Notes:

- (a) For the year ended 31 December 2016, the Group made capital injection to an associated company of RMB9,606,000.
- (b) The Group's share of the results of its associated companies, all of which are unlisted, and the shares of aggregated assets and liabilities at year end, are as follows:

	Country of Incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net (loss)/ profit RMB'000	Interest held by the Group (%)
2016						
Guangzhou Li He Property Development Co., Ltd. ("Guangzhou Li He")	PRC	4,581,499	(4,618,571)	600,033	(44,061)	20%
Guangzhou Chengyu Property Development Co., Ltd. ("Guangzhou Cheng Yu")	PRC	4,297,710	(4,051,316)	285,316	60,042	50%
Chengdu Heng Yu Property Development Co., Ltd. ("Chengdu Heng Yu")	PRC	2,282,235	(2,145,144)	–	(31,426)	33%
Nanjing Mingmao Real Estate Co., Ltd. ("Nanjing Mingmao")	PRC	1,568,972	(1,046,685)	832,586	139,148	49%
Others	PRC	107,858	(64,093)	7,804	(86,119)	
		12,838,274	(11,925,809)	1,725,739	37,584	
2015						
Guangzhou Li He	PRC	4,625,596	(4,618,607)	265,281	(27,190)	20%
Guangzhou Cheng Yu	PRC	2,873,185	(2,686,797)	667,912	165,472	50%
Chengdu Heng Yu	PRC	2,391,694	(2,388,528)	59,364	(13,248)	33%
Nanjing Mingmao	PRC	1,322,058	(924,603)	–	(4,346)	49%
Others	PRC	357,747	(53,470)	6,783	(12,004)	
		11,570,280	(10,672,005)	999,340	108,684	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

10 ASSOCIATED COMPANIES (CONTINUED)

Details of the principal associated companies of the Group as at 31 December 2016 are set out in Note 37.

There is no individually material associated company of the Group as at 31 December 2016 and 2015.

The Group provided guarantees to associated companies for their borrowings from banks and other financial institutions amounting to RMB3,130,560,000 as at 31 December 2016 (2015: RMB4,901,630,000) (Note 38).

11 JOINT VENTURES

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Share of net assets:		
Opening balance	9,784,898	8,534,090
Capital injections	663,310	900,527
Acquisition of joint ventures	–	1,490,448
Transfer from subsidiaries (Note 40(b)(i) and Note 40(c))	450,490	1,837,905
Capital distribution	–	(900,000)
Transfer to subsidiaries (Note 40(d))	(1,229,298)	(1,455,610)
Transfer to an associated company	–	(30,609)
Share of results	(485,975)	(591,853)
Ending balance	9,183,425	9,784,898

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

11 JOINT VENTURES (CONTINUED)

The Group's share of the results of its joint ventures, all of which are unlisted, and the shares of aggregated assets and liabilities at year end, are as follows:

	Country of Incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net profit/ (loss) RMB'000	Interest held by the Group
2016						
Nantong Shimao New Era Real Estate Development Co., Ltd. ("Nantong New Era")	PRC	5,810,152	(5,466,452)	87,720	4,045	50%
Ningbo Shimao New Miles Property Co., Ltd. ("Ningbo New Miles")	PRC	3,873,200	(3,668,473)	(32,595)	(29,183)	50%
Changsha Shimao Real Estate Co., Ltd. ("Changsha Real Estate")	PRC	3,207,782	(2,792,975)	501,370	2,808	50%
Shanghai Shimao Sheshan Huiying Property Co., Ltd. ("Shanghai Sheshan Huiying")	PRC	2,777,945	(2,416,489)	365,253	(8,046)	50%
Suzhou Shimao Industrial Park Lakeside Property Co., Ltd. ("Suzhou Industrial Lakeside")	PRC	2,649,289	(1,960,134)	–	(295)	49%
Tianjin Jinnan Xincheng Real Estate Development Co., Ltd. ("Tianjin Jinnan")	PRC	2,496,133	(1,594,866)	424,834	11,606	25%
Wuhan Shimao Tianrun Property Co., Ltd. ("Wuhan Tianrun")	PRC	2,313,149	(1,468,193)	–	(4,788)	50%
Ningbo Shimao New Century Real Estate Development Co., Ltd. ("Ningbo New Century")	PRC	1,863,411	(1,347,449)	619,940	(145,626)	50%
Changsha Shimao Investment Co., Ltd. ("Changsha Investment")	PRC	1,746,215	(1,260,546)	–	(970)	49%
Wuxi Shimao Real Estate Development & Construction Co., Ltd. ("Wuxi Shimao")	PRC	1,741,551	(1,865,760)	30,958	(105,424)	50%
Suzhou Shimao Industrial Park Century Property Co., Ltd. ("Suzhou Industrial Century")	PRC	1,731,908	(1,020,774)	925,655	(79,016)	50%
Ningbo Shimao Jianianhua Property Co., Ltd. ("Ningbo Jianianhua")	PRC	1,617,582	(1,425,824)	–	(60)	50%
Xiamen Taishi Real Estate Development Co., Ltd. ("Xiamen Taishi")	PRC	1,463,487	(1,459,454)	–	(886)	49%
Shanghai Chunri Property Co., Ltd. ("Shanghai Chunri")	PRC	1,415,073	(1,411,266)	–	(592)	45%
Fast Right Investment Limited ("Fast Right")	Hong Kong	1,251,466	(345,914)	296,353	7,532	50%
Nanchang Shimao New Development Property Co., Ltd. ("Nanchang New Development")	PRC	1,178,716	(761,304)	31,744	(78,016)	50%
Xiamen Mujia Business Factoring Co., Ltd. ("Xiamen Mujia")	PRC	1,197,613	(943,797)	22,165	(3,816)	50%
Ningbo Dingfeng Real Estate Development Co., Ltd. ("Ningbo Dingfeng")	PRC	997,140	(957,273)	–	(5,790)	40%
Kingtron Enterprises Limited ("Kingtron")	Hong Kong	789,953	(442,640)	300,255	(3,554)	50%
Others	PRC	5,341,045	(3,669,802)	337,816	(45,904)	
		45,462,810	(36,279,385)	3,911,468	(485,975)	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

11 JOINT VENTURES (CONTINUED)

	Country of Incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net (loss)/ profit RMB'000	Interest held by the Group
2015						
Tianjin Jinnan	PRC	2,333,283	(1,442,983)	151,780	(5,695)	25%
Nanchang New Development	PRC	1,264,937	(763,930)	297,536	(47,157)	50%
Changsha Real Estate	PRC	3,905,631	(3,486,088)	280,930	(36,841)	50%
Chengdu Shimao Investment Co., Ltd.	PRC	792,808	(740,224)	335,722	(34,864)	50%
Fast Right	Hong Kong	1,607,163	(709,143)	201,776	(20,063)	50%
Kingtron	Hong Kong	829,993	(479,576)	175,283	(20,883)	50%
Suzhou Industrial Century	PRC	2,161,472	(1,240,688)	56	(2,479)	40%
Wuxi Shimao	PRC	1,811,019	(2,136,016)	464,578	(325,964)	49%
Ningbo New Miles	PRC	3,999,968	(3,684,904)	(14,720)	(47,961)	50%
Ningbo New Century	PRC	1,541,462	(879,874)	-	(39,055)	50%
Suzhou Industrial Lakeside	PRC	2,580,290	(1,890,712)	-	(87)	49%
Nantong New Era	PRC	1,992,377	(1,650,076)	132,021	2,172	50%
Changsha Investment	PRC	1,173,815	(686,853)	-	(793)	49%
Shanghai Chunri	PRC	1,306,249	(1,301,764)	-	(4,009)	45%
Ningbo Dingfeng	PRC	847,097	(801,441)	-	(3,370)	40%
Shanghai Sheshan Huiying	PRC	1,603,130	(1,229,868)	-	-	50%
Others	PRC	6,739,546	(3,581,202)	35,844	(4,804)	
		36,490,240	(26,705,342)	2,060,806	(591,853)	

Details of the principal joint ventures of the Group as at 31 December 2016 are set out in Note 37.

There is no individually material joint venture of the Group as at 31 December 2016 and 2015.

The Group provided guarantees to joint ventures for their borrowings from banks amounting to RMB3,167,689,000 as at 31 December 2016 (2015: RMB2,632,447,000) (Note 38).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

12 AMOUNTS DUE FROM RELATED PARTIES

Advances to related parties included in non-current assets is to finance their acquisition of land use rights. The Group's intention is that the advances will only be recalled when the related companies have surplus cash.

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Included in non-current assets		
– Joint ventures	1,298,879	2,112,737
– Associated companies	624,352	661,957
	1,923,231	2,774,694

Advances to related parties included in current assets is the disbursement to finance their operating activities which will be repaid within one year.

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Included in current assets		
– Company with common directors	160	160
– Associated companies	2,195,889	1,458,481
– Joint ventures	427,265	123,288
	2,623,314	1,581,929

These advances are interest free, unsecured and have no fixed repayment terms. The carrying amounts of amounts due from related companies approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Opening balance	1,204,470	204,510
Additions	3,100,000	1,070,000
Disposals	(70,000)	–
Fair value losses recognised in other comprehensive income	(293,214)	(70,040)
Ending balance	3,941,256	1,204,470

Available-for-sale financial assets include the following:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Available-for-sale financial assets included in non-current assets		
Listed securities:		
– Equity securities		
– without lock-up period (Note(a))	133,875	134,470
– with lock-up period (Note(b))	730,281	1,000,000
Unlisted securities:		
– Equity securities (Note(c))	–	70,000
Investment in structured products issued by banks (Note (d))	77,100	–
	941,256	1,204,470
Available-for-sale financial assets included in current assets		
Investment in structured products issued by banks (Note(d))	3,000,000	–
	3,000,000	–

Notes:

- (a) Listed securities without lock-up period represented investment in listed equity securities in the PRC which were stated at market value based on the quoted price.
- (b) Listed securities with lock-up period represented 1.15% equity interest (13,506,212 shares) in Wanda Cinema Line, a company listed on the Shenzhen Stock Exchange, with a lock-up period up to 3 January, 2017. The fair value of this asset is determined using valuation model for which not all inputs are observable and within Level 3 of the fair value hierarchy (Note 3(e)).
- (c) Unlisted securities represented a 2.12% equity interest in an unlisted company which was established in the PRC. It has been disposed during the year ended 31 December 2016.
- (d) Investment in structured products issued by banks represented a combination of financial products with a floating interest measured with fair value. The fair value of these assets are determined using valuation model for which not all inputs are observable and is within Level 3 of the fair value hierarchy (Note 3).

As at 31 December 2016, no available-for-sale financial asset was pledged as collateral for the Group's borrowings (2015: Nil) (Note 24).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

14 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes relate to the same tax authority. The net deferred income tax balances after offsetting are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Deferred income tax assets		
– to be recovered after more than 12 months	1,472,132	1,246,847
– to be recovered within 12 months	826,717	737,130
	2,298,849	1,983,977
Deferred income tax liabilities		
– to be recovered after more than 12 months	5,200,327	4,866,528
– to be recovered within 12 months	466,206	605,293
	5,666,533	5,471,821
Net deferred income tax liabilities	3,367,684	3,487,844

The movement on the net deferred income tax account is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Opening balance	3,487,844	2,909,475
Disposal of subsidiaries (Note 40(b)(iii))	(456,651)	–
Charged to the consolidated income statement (Note 33)	409,794	595,879
Credited to other comprehensive income	(73,303)	(17,510)
Ending balance	3,367,684	3,487,844

Movement in deferred income tax assets and liabilities for the year ended 31 December 2016, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Provision for land appreciation tax deductible for future income tax clearance	Unrealized profit on intra-group transaction	Tax loss and temporary difference on recognition of expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	969,997	189,171	272,485	1,431,653
Credited to the consolidated income statement	101,736	46,497	444,059	592,292
At 31 December 2015	1,071,733	235,668	716,544	2,023,945
Credited/(charged) to the consolidated income statement	123,953	(278)	180,642	304,317
Disposal of subsidiaries	(27,146)	–	–	(27,146)
At 31 December 2016	1,168,540	235,390	897,186	2,301,116

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

14 DEFERRED INCOME TAX (CONTINUED)**Deferred income tax liabilities**

	Fair value gains on investment properties	Fair value adjustments on assets and liabilities upon acquisition of subsidiaries	Withholding tax on the retained earnings of certain subsidiaries	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	3,170,172	937,230	233,726	–	4,341,128
Charged to the consolidated income statement	694,174	59,992	260,005	174,000	1,188,171
Credited to other comprehensive income	–	(17,510)	–	–	(17,510)
At 31 December 2015	3,864,346	979,712	493,731	174,000	5,511,789
Charged/(credited) to the consolidated income statement	459,200	80,538	225,000	(50,627)	714,111
Credited to other comprehensive income	–	(73,303)	–	–	(73,303)
Disposal of subsidiaries	(351,685)	(132,112)	–	–	(483,797)
At 31 December 2016	3,971,861	854,835	718,731	123,373	5,668,800

Deferred income tax arose as a result of differences in timing of recognising certain revenue, costs and expenses between the tax based financial statements and the HKFRS financial statements. This constitutes temporary differences, being the differences between the carrying amounts of the assets or liabilities in the consolidated balance sheets and their tax bases in accordance with HKAS 12.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB54,710,000 (2015: RMB52,646,000) in respect of accumulated losses amounting to RMB218,840,000 (2015: RMB210,582,000) that can be carried forward against future taxable income. Losses amounting to RMB82,317,000, RMB15,066,000, RMB14,198,000, RMB26,381,000 and RMB80,878,000, will expire in 2017, 2018, 2019, 2020 and 2021 respectively.

Deferred income tax liabilities have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries in the PRC. Such amounts will be reinvested according to the distribution and reinvestment plan of the Group.

15 OTHER NON-CURRENT ASSETS

As at 31 December 2016, the Group has made prepayments of RMB969,639,000 (2015: RMB1,311,526,000) for certain land use rights for the purpose to develop hotel buildings, self-used buildings and investment properties, the ownership certificates of which have not been obtained. As at 31 December 2016, prepayments of RMB17,950,915,000 (31 December 2015: RMB11,133,906,000) were related to the lands for the purpose to develop properties for sale, and are included in current assets, 'prepayments for acquisition of land use rights'.

As at 31 December 2016, the Group made prepayments of RMB660,000,000 (31 December 2015: Nil) for acquisition of certain equity interests.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

16 INVENTORIES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Inventories comprise:		
Properties under development (Note (a))	101,568,030	100,727,237
Completed properties held for sale (Note (b))	18,476,834	18,140,289
Biological assets (Note (c))	298,133	–
	120,342,997	118,867,526

Notes:

(a) Properties under development

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Properties under development comprise:		
Land use rights	64,553,124	56,587,118
Construction costs and capitalised expenditures	28,344,102	37,746,624
Interests capitalised	8,670,804	6,393,495
	101,568,030	100,727,237

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Land use rights		
Held on leases of:		
Over 50 years	53,209,635	45,962,104
Between 10 to 50 years	11,343,489	10,625,014
	64,553,124	56,587,118

The properties under development are all located in the PRC. The relevant land use rights are on leases of 40 to 70 years.

As at 31 December 2016, properties under development of approximately RMB26,992,358,000 (2015: RMB31,294,587,000) were pledged as collateral for the Group's borrowings (Note 24).

The capitalisation rate of borrowings was 5.67% for the year ended 31 December 2016 (2015: 6.70%).

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Properties under development:		
Expected to be completed and available for sale after more than 12 months	27,463,204	33,903,090
Expected to be completed and available for sale within 12 months	74,104,826	66,824,147
	101,568,030	100,727,237

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

16 INVENTORIES (CONTINUED)

(b) Completed properties held for sale

All completed properties held for sale are located in the PRC. Included in completed properties held for sale are land use rights as follows:

	As at 31 December 2016 RMB'000	2015 RMB'000
Outside Hong Kong, held on leases of:		
Over 50 years	5,759,229	5,650,000
Between 10 to 50 years	972,861	1,049,932
	6,732,090	6,699,932

As at 31 December 2016, completed properties held for sale of RMB6,581,322,000 (2015: RMB5,727,010,000) were pledged as collateral for the Group's borrowings (Note 24).

For the year ended 31 December 2016, the Group recognised impairment losses of RMB173,295,000 (2015: RMB152,469,000) on completed properties held for sale (Note 29).

(c) Biological assets

On 20 April 2016 the Group entered into a purchase agreement with SAWA Pty Ltd.. Pursuant to the agreement, the Group purchased an asset group in Western Australia including four pastoral station lease rights, 55,000 cattle and relevant equipment with total consideration of AUD102,600,000 (equivalent to RMB513,000,000). The whole transaction was completed on 15 November 2016 and the fair value of the pastoral station lease rights, cattle and relevant equipments were RMB199,023,000, RMB298,133,000 and RMB28,341,000, respectively.

17 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December 2016 RMB'000	2015 RMB'000
Bidding deposits for land use rights (Note (a))	10,434,729	4,116,809
Trade receivables (Note (b))	4,623,286	4,967,963
Prepaid business tax on pre-sale proceeds	1,039,979	1,700,264
Prepayments for construction costs	1,832,733	1,239,653
Other receivables	2,325,809	2,762,189
	20,256,536	14,786,878

Notes:

- (a) Bidding deposits for land use rights mainly represented deposits of the Group placed with various municipal governments for the participation in land auctions. These deposits will be deducted against the total land costs to be paid if the Group wins the bid at the auction. If the Group does not win the bid, the deposits will be fully refunded.
- (b) Trade receivables mainly arise from sales of properties. Consideration in respect of properties sold is paid in accordance with the terms of the related sales and purchase agreements. The ageing analysis of trade receivables at the respective balance sheet dates is as follows:

	As at 31 December 2016 RMB'000	2015 RMB'000
Within 90 days	3,714,529	3,911,781
Over 90 days and within 365 days	527,704	651,316
Over 365 days	381,053	404,866
	4,623,286	4,967,963

As at 31 December 2016, receivables arising from sales of properties was approximately RMB4,380,004,000 (2015: RMB4,332,638,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

17 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

Trade receivables are analysed as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Fully performing under credit terms	3,690,031	3,694,870
Past due but not impaired	933,255	1,273,093
	4,623,286	4,967,963

The ageing analysis of trade receivables past due but not impaired is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 90 days	375,422	245,613
Over 90 days and within 365 days	225,516	622,614
Over 365 days	332,317	404,866
	933,255	1,273,093

As the Group normally holds the title of the properties sold as collateral before collection of the outstanding balances and passing the titles to the purchasers, the Directors consider that the past due trade receivables would be recovered and no provision was made against past due receivables as at 31 December 2016 and 2015.

As at 31 December 2016, provision for impairment of other receivables was approximately RMB188,751,000 (2015: RMB131,389,000).

As at 31 December 2016 and 2015, the fair value of trade receivables, bidding deposits for land use rights, and other receivables of the Group approximate their carrying amounts, as the impact of discounting is not significant.

As at 31 December 2016 and 2015, trade and other receivables of the Group were mainly denominated in RMB.

18 PREPAYMENT FOR ACQUISITION OF LAND USE RIGHTS

Prepayments for acquisition of land use rights are related to acquisition of land for property development purposes, the ownership certificates of which have not been obtained as at 31 December 2016.

19 DERIVATIVE FINANCIAL INSTRUMENTS

The movement of derivative financial instruments assets is as follows:

Derivatives at fair value through profit or loss

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Opening balances of assets/(liabilities)	41,782	(1,611)
Acquisition of currency options and forwards (Note(a))	13,714	–
Fair value gain – interest swap contract (Note(b))	63,993	–
Fair value gain – currency options and forwards (Note(a))	76,485	43,393
Disposal of interest rate swap (Note(b))	(105,775)	–
Closing balances of assets	90,199	41,782

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

19 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes:

- (a) For the year ended 31 December 2016, the Group has entered into six currency option contracts with an aggregate notional amount of US\$150,000,000 and four currency forward contracts with an aggregate notional amount of US\$400,000,000 with Morgan Stanley. These contracts do not qualify for hedge accounting, and are classified as derivative financial instruments held for trading as current assets or current liabilities. Fair value gains of RMB76,485,000 (2015: Nil) have been recognised in "other income/other gains – net" (Note 28).
- (b) On 6 January 2011, the Group entered into two interest rate swap contracts with The Hong Kong and Shanghai Banking Corporation Limited ("HSBC"), with an aggregate notional amount of US\$300,000,000 (the "Swap Contracts"). The Swap Contracts took effect from 3 August 2010, and will terminate on 3 August 2017. Pursuant to the Swap Contracts, the Group receives interest at a fixed rate of 9.65%, and pays interest at floating rate with reference to the HSBC Vol-Budgeted Dynamic Term Premium Index as published on Bloomberg but subject to a ceiling of 12.1%, semi-annually on 3 February and 3 August commencing from 3 February 2011 and up to termination.

The Swap Contracts do not qualify for hedge accounting, and are classified as derivative financial instruments held for trading as current assets or current liabilities, with any fair value changes recognised in the consolidated income statement.

There is a day-one loss of approximately RMB125,306,000 arising from the Swap Contracts, which is deferred and amortised in the consolidation income statement based on the straight line method within the effective lives of the Swap Contracts. The Group has terminated the Swap Contracts during the year ended 31 December 2016 and has recorded the fair value gain of the Swap Contracts according to the final agreement with HSBC. For the year ended 31 December 2016, the fair value gains of the Swap Contracts amounting to RMB63,993,000 have been recognised in "Other income/other gains – net" (Note 28).

20 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Bank balances and cash		
– denominated in RMB	21,821,916	25,904,554
– denominated in US dollar	237,847	416,324
– denominated in HK dollar	175,070	88,678
Less: Restricted cash	(2,875,658)	(3,817,713)
	19,359,175	22,591,843

As at 31 December 2016, the Group's restricted cash comprised approximately RMB588,632,000 (2015: RMB270,931,000) of guarantee deposits for the benefit of mortgage loan facilities granted by the banks to the purchasers of the Group's properties (Note 38) and approximately RMB2,287,026,000 (2015: RMB3,546,782,000) of deposits pledged as collateral for the Group's borrowings (Note 24).

The conversion of RMB denominated balances into foreign currencies and the remittance of the foreign currencies out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

The effective interest rate on bank deposits as at 31 December 2016 was 0.34% (2015: 0.34%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

21 SHARE CAPITAL**(a) Details of share capital of the Company are as follows:**

	Par value	Number of shares	Nominal value of ordinary shares	
	HK\$	'000	HK\$'000	Equivalent to RMB'000
Authorised:				
At 31 December 2016 and 2015	0.1	5,000,000	500,000	
Issued and fully paid ordinary share:				
At 31 December 2015, and 1 January 2015		3,472,572	347,257	356,275
Cancellation of shares (Note)		(73,191)	(7,319)	(7,411)
At 31 December 2016		3,399,381	339,938	348,864

Note:

The Company acquired 85,549,000 of its own shares through purchases on the Hong Kong Stock Exchange from 4 July 2016 till 30 December 2016, among which 73,191,000 shares have been cancelled during the year ended 31 December 2016. The total amount paid to acquire the shares was HK\$874,917,561, equivalent to RMB758,374,125 and has been deducted from share premium within shareholders' equity (Note 22).

(b) Share Option Scheme

Pursuant to Shanghai Shimao's shareholders' resolution passed on 27 June 2013, a share option scheme ("A Share Option Scheme") was approved, and would expire at the end of the 36-month period from the date of grant. On 28 June 2013, options for a total of 10,000,000 ordinary shares of Shanghai Shimao ("A Share Option") under this scheme were granted to Shanghai Shimao's eligible employees with exercise price of RMB9.84 per share.

The exercise of the granted options is subject to a restriction of 12 months from the date of grant. Subject to the fulfilment of various conditions, including service condition and non-market performance condition, as provided in the A Share Option Scheme, the granted options can be exercised in two batches evenly commencing from (i) the first trading day after the expiry of the 12-month period from the date of grant and (ii) the first trading day after the expiry of the 24-month period from the date of grant, respectively. The weighted average fair value of A Share Option granted determined using the Black-Scholes valuation model was RMB1.235 per option.

Due to the issue of shares by way of conversion of capital reserve, the total options changed from 10,000,000 shares to 21,000,000 shares, out of which 8,820,000 shares were exercised, 12,180,000 shares were lapsed and no shares were granted but not exercised. Pursuant to the A Share Option Scheme, the granted options were expired on 26 June 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

21 SHARE CAPITAL (CONTINUED)**(c) Share Award Scheme**

The Company's board of directors (the "Board") approved and adopted the Share Award Scheme on 30 December 2011 (the "Share Scheme"). Unless terminated earlier by the Board, the Share Scheme is valid and effective for a term of 8 years commencing on 30 December 2011. The maximum number of shares to be awarded must not exceed 34,659,508 shares (i.e. 1% of issued shares of the Company as at 30 December 2011).

The Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each employee determined by the Board from time to time), select such employee(s) for participation in the Share Scheme and determine the number of awarded shares.

A Trust was constituted to manage the Share Scheme, and a wholly-owned subsidiary of the Company incorporated in the British Virgin Islands was designated as Trustee. As at 31 December 2016, the Trust purchased 24,070,000 ordinary shares from market, totaling HK\$328,484,000 (equivalent to RMB263,378,000), of which 18,053,567 shares were granted to eligible employees according to the Share Scheme, 12,796,867 shares vested, and 1,739,585 shares lapsed.

The granted shares were subject to several vesting conditions, including 1 year service and non-market performance appraisal before vesting date. The shares granted are held by the Trust before being transferred to the employees when vesting conditions are fully met.

Movements in the number of unvested shares granted during the period are as follows:

	Number of unvested shares granted	
	Year ended 31 December	
	2016	2015
Unvested shares, beginning	4,730,902	5,468,896
Granted	3,517,115	4,730,902
Vested	(4,022,474)	(4,752,690)
Lapsed	(708,428)	(716,206)
Unvested shares, ending	3,517,115	4,730,902

The weighted average fair value of the unvested units granted during the year ended 31 December 2016 is HK\$37,492,446, equivalent to RMB31,263,451 (2015: HK\$65,286,448, equivalent to RMB54,696,986).

(d) Reconciliation of the number of shares outstanding was as follows:

	Year ended 31 December	
	2016	2015
	'000	'000
Shares issued	3,399,381	3,472,572
Treasury shares for Share Award Scheme	(11,273)	(10,995)
Treasury shares for cancellation	(12,358)	–
Shares outstanding	3,375,750	3,461,577

(e) Material non-controlling interests

There is no individual material non-controlling interests of the Group as at 31 December 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

22 RESERVES

	Merger reserve RMB'000	Share premium RMB'000	Share-based compensation reserve RMB'000	Statutory reserve RMB'000	Capital redemption reserve RMB'000	Available-for- sale financial assets RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2015	(185,787)	5,116,815	97,740	1,608,456	4,949	40,573	39,824,358	46,507,104
Profit for the year	-	-	-	-	-	-	6,115,784	6,115,784
Fair value losses on available-for-sale financial assets, net of tax	-	-	-	-	-	(33,682)	-	(33,682)
Changes in ownership interests in subsidiaries without change of control	-	(345,138)	-	-	-	-	-	(345,138)
Equity-settled share-based payment								
- Value of employee services	-	-	92,205	-	-	-	-	92,205
- Purchase of shares (Note 21(c))	-	(40,184)	-	-	-	-	-	(40,184)
- Dividend received	-	9,984	-	-	-	-	-	9,984
Profit appropriations	-	-	-	258,084	-	-	(258,084)	-
2014 final dividend paid	-	(1,644,540)	-	-	-	-	-	(1,644,540)
2015 interim dividend paid	-	(856,148)	-	-	-	-	-	(856,148)
Balance at 31 December 2015	(185,787)	2,240,789	189,945	1,866,540	4,949	6,891	45,682,058	49,805,385
Representing:								
Proposed final dividend		1,163,728						1,163,728
Others		1,077,061						48,641,657
		2,240,789						49,805,385

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

22 RESERVES (CONTINUED)

	Merger reserve RMB'000 (Note)	Share premium RMB'000	Translation reserve RMB'000	Share-based compensation reserve RMB'000	Statutory reserve RMB'000	Capital redemption reserve RMB'000	Available-for- sale financial assets RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2016	(185,787)	2,240,789	–	189,945	1,866,540	4,949	6,891	45,682,058	49,805,385
Profit for the year	–	–	–	–	–	–	–	5,171,855	5,171,855
Fair value losses on available-for-sale financial assets, net of tax	–	–	–	–	–	–	(129,572)	–	(129,572)
Currency translation differences	–	–	(36)	–	–	–	–	–	(36)
Changes in ownership interests in subsidiaries without change of control	–	116,685	–	–	–	–	–	–	116,685
Equity-settled share-based payment	–	–	–	–	–	–	–	–	–
– Value of employee services	–	–	–	50,005	–	–	–	–	50,005
– Purchase of shares	–	(37,198)	–	–	–	–	–	–	(37,198)
– Dividends received	–	7,518	–	–	–	–	–	–	7,518
Buy-back of shares	–	–	–	–	–	–	–	–	–
– Purchase of shares (Note 21(a))	–	(758,374)	–	–	–	–	–	–	(758,374)
– Dividends received	–	6,455	–	–	–	–	–	–	6,455
– Cancellation of shares (Note 21(a))	–	7,411	–	–	–	–	–	–	7,411
2015 final dividend paid	–	(1,187,203)	–	–	–	–	–	–	(1,187,203)
2016 interim dividend paid	–	–	–	–	–	–	–	(945,744)	(945,744)
Balance at 31 December 2016	(185,787)	396,083	(36)	239,950	1,866,540	4,949	(122,681)	49,908,169	52,107,187
Representing:									
Proposed final dividend								1,318,310	1,318,310
Others								48,589,859	50,788,877
								49,908,169	52,107,187

Note:

Merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiary purchased pursuant to the reorganisation and the nominal value of the shares of the Company issued in exchange effected prior to the listing of the Company's shares on the Stock Exchange in 2006.

23 PERPETUAL CAPITAL INSTRUMENTS

For the year ended 31 December 2016, certain subsidiaries of the Group issued several subordinated unlisted perpetual capital instruments with the total aggregate net proceeds of RMB5,100,000,000 and early redeemed RMB600,000,000 in the second half of year 2016.

All perpetual capital instruments are unsecured and non-guaranteed. There is no maturity of the instruments and the payments of distribution can be deferred at discretion, and there is no limit as to the number of times of deferral of distribution. The perpetual capital instruments are callable. When certain subsidiaries elect to declare dividends to the shareholders, certain subsidiaries shall make distribution to the holders of perpetual capital instruments at the distribution rate as defined in the subscription agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

24 BORROWINGS

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Borrowings included in non-current liabilities		
Long-term bank borrowings		
– secured by assets (Note (i))	8,525,901	15,570,749
– secured by shares of subsidiary guarantors (Note (ii))	–	7,821,483
– secured by shares of a listed subsidiary (Note (iii))	–	35,000
– unsecured	2,692,844	2,382,441
Long-term borrowings from other financial institutions		
– secured by assets (Note (i))	2,452,000	3,490,000
– unsecured	1,094,466	1,339,507
Senior notes – secured (Note (iv))	17,266,917	16,112,385
Medium-term notes – unsecured (Note (v))	5,000,000	5,000,000
Long-term bonds (Note (vi))	10,864,781	7,365,900
Domestic corporate bonds (Note (viii))	9,705,620	–
	57,602,529	59,117,465
Less: Portion of long-term bank borrowings due within one year	(544,125)	(5,710,562)
Portion of long-term borrowings from other financial institutions due within one year	(344,466)	(539,507)
Portion of senior notes due within one year	(5,525,735)	–
Portion of medium-term notes due within one year	(2,000,000)	–
Amounts due within one year	(8,414,326)	(6,250,069)
	49,188,203	52,867,396
Borrowings included in current liabilities		
Short-term bank borrowings		
– secured by assets (Note (i))	3,188,983	3,614,898
– secured by shares of a listed subsidiary (Note (iii))	–	462,000
– unsecured	2,105,000	2,489,629
Short-term borrowings from other financial institutions		
– secured by assets (Note (i))	46,000	85,000
– unsecured	1,000	52,000
Short-term bonds – unsecured (Note (vii))	4,000,000	4,000,000
Current portion of long-term borrowings	2,888,591	6,250,069
Current portion of long-term senior notes	5,525,735	–
	17,755,309	16,953,596

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

24 BORROWINGS (CONTINUED)

Notes:

- (i) As at 31 December 2016, the Group's total secured bank borrowings and borrowings from other financial institutions of RMB14,212,883,000 (2015: RMB22,760,647,000) were secured by its assets under construction and buildings (Note 6), investment properties (Note 7), land use rights (Note 8), properties under development (Note 16(a)), completed properties held for sale (Note 16(b)) and restricted cash (Note 20). As at 31 December 2016, secured borrowings of RMB147,500,000 (2015: RMB1,331,000,000) were further guaranteed by Mr. Hui Wing Mau.
- (ii) On 14 June 2013, the Company entered into a multi-currency loan facility agreement with a syndicate of 8 banks. Pursuant to the agreement, the Company obtained 4-year syndicated loan facilities, including a US\$320,000,000 facility and a HK\$1,950,000,000 facility at a floating rate of interest, 15% out of the loan principal matured for the year ended 31 December 2015, 35% would matured in 2016 and 50% will mature in 2017. The loan facilities were guaranteed by certain subsidiaries of the Group, and secured by pledge of the shares of these subsidiary guarantors. On 16 February 2016, the Company repaid all the remaining principal of the syndicated loan.
- On 12 June 2014, the Company entered into a multi-currency loan facility agreement with a syndicate of 10 banks. Pursuant to the agreement, the Company obtained 4-year syndicated loan facilities, including a US\$665,000,000 facility and a HK\$555,000,000 facility at a floating rate of interest, 15% out of the loan principal matured in 2016, 35% will mature in 2017 and 50% will mature in 2018. The loan facilities were guaranteed by certain subsidiaries of the Group, and secured by pledge of the shares of these subsidiary guarantors. On 31 May 2016, the Company repaid all the remaining principal of the syndicated loan.
- (iii) As at 31 December 2016, no shares of Shanghai Shimao (31 December 2015: 98,420,000) have been pledged for a bank borrowings (31 December 2015: RMB497,000,000) for Group companies.
- (iv) On 14 January 2013, the Company issued senior notes with total principal of US\$800,000,000 at a fixed interest rate of 6.625% due on 14 January 2020. And on 22 January 2014, the Company issued senior notes with total principal of US\$600,000,000 at a fixed rate of 8.125% due on 22 January 2021. On 10 February 2015, the Company issued senior notes with total principal of US\$800,000,000 at a fixed interest rate of 8.375% due on 10 February 2022. On 17 March 2015, the Company issued senior notes with total principal of US\$300,000,000 at a fixed interest rate 8.375% due on 10 February 2022. The Company may at its option redeem these notes, in whole or in part, by certain dates based on the terms of these notes. The notes are senior obligations guaranteed by certain restricted offshore subsidiaries and secured by a pledge of the shares of these offshore restricted subsidiaries. On 6 February 2017, the Company early redeemed the senior notes of US\$800,000,000 which was originally due on 14 January 2020 (approximately RMB5,525,735,000).
- (v) On 15 April 2014, Shanghai Shimao issued medium-term notes with total principal of RMB1,000,000,000 at a fixed interest rate of 8.37% due on 15 April 2017. On 22 August 2014, Shanghai Shimao issued medium-term notes with total principal of RMB1,000,000,000 at a fixed interest rate of 7.6% due on 22 August 2017. On 10 March 2015, Shanghai Shimao issued medium-term notes with total principal of RMB1,500,000,000 at a fixed interest rate of 6.08% due on 10 March 2018. On 10 July 2015, Shanghai Shimao issued medium-term notes with total principal of RMB1,500,000,000 at a fixed interest rate of 5.35% due on 10 July 2018.
- (vi) On 18 September 2015, Shanghai Shimao Jianshe Co., Ltd. ("Shimao Jianshe") issued long-term bonds in an aggregate principal amount of RMB6,000,000,000 at a fixed interest rate of 3.90% per annum, which will mature on 18 September 2020. On 15 October 2015, Shimao Jianshe issued long-term bonds with total principal of RMB1,400,000,000 at a fixed interest rate of 4.15% due on 15 October 2022. On 24 March 2016, Shanghai Shimao issued long-term bonds in amount of RMB2,000,000,000 at a fixed interest rate of 3.29% per annum. On 12 July 2016, Shanghai Shimao issued long-term bonds in amount of RMB1,500,000,000 at a fixed interest rate of 3.38% per annum.
- (vii) On 26 January 2015, Shanghai Shimao issued short-term notes with total principal of RMB2,000,000,000 at a fixed interest rate of 5.55% due on 27 January 2016. On 22 April 2015, Shanghai Shimao issued short-term notes with total principal of RMB2,000,000,000 at a fixed interest rate of 4.65% due on 23 April 2016. On 12 January 2016, Shanghai Shimao issued short-term financing bonds with total principal of RMB2,000,000,000 at a fixed interest rate of 3% due on 12 January 2017. On 20 October 2016, Shanghai Shimao issued short-term financing bonds with total principal of RMB2,000,000,000 at a fixed interest rate of 3% due on 20 October 2017.
- (viii) On 14 January 2016, 3 August 2016, 22 September 2016, 22 September 2016 and 22 September 2016, Shimao Property Holdings Limited issued domestic corporate bonds with total principal of RMB4,000,000,000, RMB540,000,000, RMB1,000,000,000, RMB3,000,000,000 and RMB1,200,000,000 at a fixed interest rate of 4.8%, 4.3%, 3.7%, 3.9% and 4.1% due on 14 January 2021, 3 August 2021, 22 September 2018, 22 September 2019 and 22 September 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

24 BORROWINGS (CONTINUED)

The interest-bearing bank borrowings, including the term loans repayable on demand, are carried at amortised cost.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity, whichever is the earlier date, is as follows:

	6 months or less RMB'000	6-12 months RMB'000	1-5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Borrowings included in non-current liabilities:					
At 31 December 2016	27,563,118	2,504,048	4,129,961	14,991,076	49,188,203
At 31 December 2015	29,624,791	2,691,346	4,438,875	16,112,384	52,867,396
Borrowings included in current liabilities:					
At 31 December 2016	15,465,850	2,289,459	-	-	17,755,309
At 31 December 2015	14,767,514	2,186,082	-	-	16,953,596

The maturity of the borrowings included in non-current liabilities is as follows:

	As at 31 December 2016 RMB'000	2015 RMB'000
Bank borrowings:		
Between 1 and 2 years	2,809,603	7,578,121
Between 2 and 5 years	3,920,509	7,256,883
Over 5 years	3,944,508	5,264,108
Borrowings from other financial institution:		
Between 1 and 2 years	480,000	690,000
Between 2 and 5 years	2,722,000	3,600,000
Domestic corporate bonds:		
Between 2 and 5 years	9,705,620	-
Senior notes:		
Between 2 and 5 years	4,129,902	5,127,912
Over 5 years	7,611,280	10,984,472
Medium-term notes payable:		
Between 1 and 2 years	3,000,000	2,000,000
Between 2 and 5 years	-	3,000,000
Long-term bonds:		
Between 2 and 5 years	9,500,000	6,000,000
Over 5 years	1,364,781	1,365,900
	49,188,203	52,867,396

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

24 BORROWINGS (CONTINUED)

The weighted average effective interest rates at the balance sheet date were as follows:

	As at 31 December	
	2016	2015
Bank borrowings – RMB	5.30%	6.95%
Bank borrowings – US dollar	3.71%	4.08%
Bank borrowings – HK dollar	2.19%	2.84%
Bank borrowings – JPY yen	1.10%	–
Bank borrowings – AUD dollar	3.06%	–
Senior notes – US dollar	7.76%	8.16%
Borrowings from other financial institutions – RMB	5.70%	8.79%

The carrying amounts and fair value of non-current borrowings are as follows:

	Carrying	Fair values
	amounts RMB'000	RMB'000
Fixed rate portion – senior notes	11,741,182	12,956,634
Fixed rate portion – others	23,570,401	23,495,048
Floating rate portion	13,876,620	13,874,116
At 31 December 2016	49,188,203	50,325,798
Fixed rate portion – senior notes	16,112,385	17,250,063
Fixed rate portion – others	15,246,900	15,307,797
Floating rate portion	21,508,111	21,497,963
At 31 December 2015	52,867,396	54,055,823

The fair values of current borrowings approximated their carrying amount, as the impact of discounting is not significant. The fair values of non-current borrowings are based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial institution with substantially the same terms and characteristics at the respective balance sheet dates. The fair values of senior notes recorded in current and non-current liabilities as at 31 December 2016 amounting to RMB18,672,332,000 were calculated using the market price of the traded senior notes on the balance sheet date. The fair values of senior notes are within level 1 of the fair value hierarchy.

The carrying amounts of the borrowings are denominated in the following currencies:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
RMB	44,376,073	36,072,121
HK dollar	4,405,911	8,355,624
US dollar	17,266,917	25,393,247
AUD dollar	376,178	–
JPY yen	518,433	–
	66,943,512	69,820,992

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

25 FINANCE LEASE LIABILITIES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Included in current liabilities	171,420	186,620
Included in non-current liabilities	222,353	386,365

Finance lease liabilities for hotel facilities are repayable by installment in three to five years and have effective interest rates from 5.81% to 13.62% as at 31 December 2016 and 2015 (Note 6).

As at 31 December 2016 and 2015, finance lease liabilities of the Group were denominated in RMB.

The maturity of the finance lease liabilities included in non-current liabilities is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Finance lease liabilities		
Between 1 and 2 years	184,565	180,889
Between 2 and 5 years	37,788	205,476
	222,353	386,365

26 TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade payables (Note (a))	21,220,985	21,271,645
Other taxes payable	1,070,753	1,334,669
Accrued expenses	1,670,331	1,310,797
Other payables (Note (b))	3,345,545	2,045,880
	27,307,614	25,962,991

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

26 TRADE AND OTHER PAYABLES (CONTINUED)

Notes:

(a) As at 31 December 2016, the aging analysis of the trade payables based on invoice date is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 90 days	20,371,754	21,139,006
Over 90 days and within 1 year	849,231	132,639
	21,220,985	21,271,645

(b) Other payables comprise:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Deposits received from customers	1,235,158	1,240,333
Payables for equity interest	1,045,000	–
Fees collected from customers on behalf of government agencies	144,105	116,509
Deposits from contractors	356,455	360,388
Rental deposits from tenants and hotel customers	463,658	294,340
Others	101,169	34,310
	3,345,545	2,045,880

27 AMOUNTS DUE TO RELATED PARTIES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
– Company with common directors	–	1,861
– Associated companies	2,470,252	1,573,152
– Joint ventures	16,297,129	16,803,440
– Non-controlling interests	9,021,289	6,069,543
	27,788,670	24,447,996

Amounts due to non-controlling interests represent funds injected by the non-controlling shareholders for the development of properties. Amounts due to associated companies and joint ventures mainly represent prepayment for purchasing construction materials and other operating and financing activities.

The balances due to related parties are unsecured, interest-free and have no fixed repayment terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

28 OTHER INCOME/OTHER GAINS – NET

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Net gains on disposal of subsidiaries with loss of control (Note 40(b))	476,406	991,456
Gain on derivative financial instruments (Note 19)	140,478	43,393
Gain on disposal of investment in structured products issued by banks	93,523	–
Government grants	75,699	108,076
Gain on acquisition of a subsidiary (Note 40(e))	12,497	–
Gains on acquisition of equity interests in associated companies, joint ventures and obtaining control	–	322,116
Gains on disposal/closure of associated companies	–	40,904
Gains on deemed disposal of subsidiaries with loss of control	–	7,123
Others	40,182	57,930
	838,785	1,570,998

29 EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing costs, administrative expenses and other operating expenses are analysed as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Cost of properties sold and others	40,410,295	37,412,175
Including: interests capitalized	3,606,000	3,450,500
land and construction	35,929,000	33,834,800
Business taxes and other levies on sales of properties (Note (a))	1,635,370	3,216,851
Staff costs – including directors' emoluments (Note 31(a))	1,603,436	1,589,176
Advertising, promotion and commission costs	1,050,473	1,302,885
Direct expenses arising from hotel operation	857,339	767,791
Corporate and office expenses	610,932	753,355
Depreciation (Note 6)	430,149	430,066
Amortisation of land use rights (Note 8)	84,180	73,963
Operating lease rental expenses	77,072	105,515
Direct expenses arising from investment properties (Note 7(a))	34,494	67,398
Charitable donations	123,697	50,652
Auditor's remuneration	13,350	19,260
– Audit services	9,400	9,000
– Non-audit services	3,950	10,260
Provision for impairment of receivables	57,362	82,218
Provision of impairment losses on completed properties held for sale (Note 16(b))	173,295	152,469
Write-off of intangible assets (Note 9)	26	–
Other expenses	139,934	442,666
	47,301,404	46,466,440
Total cost of sales, selling and marketing costs, administrative expenses and other operating expenses		

Note:

- (a) The Group's companies incorporated in the PRC were subject to business taxes of 5% on their revenue from sales of properties before 1 May 2016. From then onwards, they are subject to value added tax and the applicable tax rates are 11% and 5%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

30 FINANCE COSTS – NET

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Interest on bank borrowings		
– wholly repayable within five years	2,759,925	2,724,278
– not wholly repayable within five years	256,384	308,980
Interest on senior notes		
– wholly repayable within five years	692,607	537,904
– not wholly repayable within five years	614,752	794,259
Interest on borrowing from other financial institutions		
– wholly repayable within five years	1,052,686	1,130,062
– not wholly repayable within five years	–	–
Interest on finance lease liabilities		
– wholly repayable within five years	49,214	5,818
– not wholly repayable within five years	–	–
	5,425,568	5,501,301
Less: interest capitalised	(4,743,492)	(4,940,418)
Net foreign exchange losses	1,435,225	1,970,760
Less: foreign exchange losses capitalised	(571,523)	(781,733)
Finance costs	1,545,778	1,749,910
Finance income	(369,832)	(341,262)
Finance costs – net	1,175,946	1,408,648

31 EMPLOYEE BENEFIT EXPENSE**(a) Staff costs (including directors' emoluments) comprise:**

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Wages and salaries	1,203,572	1,198,083
Pension costs – statutory pension (Note (b))	133,154	125,601
Other allowances and benefits	266,710	265,492
	1,603,436	1,589,176

(b) Pensions-defined contribution plans

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on a certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also participates in a pension scheme under the rules and regulations of the MPF Scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2015: five) directors whose emoluments are reflected in Note 32.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

32 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of each of the directors of the Company for the year ended 31 December 2016 is set out as follows:

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:

Name of directors	Fees RMB'000	Salary RMB'000	Bonuses RMB'000	Housing allowance RMB'000	Employer's	Employee share award schemes RMB'000	Total RMB'000
					contribution to a retirement benefit scheme RMB'000		
Executive directors							
Mr. Hui Wing Mau	–	5,367	447	–	–	–	5,814
Mr. Hui Sai Tan, Jason	–	5,109	585	–	16	258	5,968
Ms. Tang Fei	–	1,275	1,697	60	94	558	3,684
Mr. Liao Lujiang	–	1,546	1,739	144	94	374	3,897
Mr. Xu Younong (Note 1)	–	131	–	–	8	–	139
Mr. Kan Naigui (Note 1)	–	1,341	1,700	120	94	535	3,790
Non-executive director							
Mr. Liu Sai Fei	–	2,160	1,428	–	–	754	4,342
Independent non-executive directors							
Ms. Kan Lai Kuen, Alice	322	–	–	–	–	–	322
Mr. Lu Hong Bing	322	–	–	–	–	–	322
Mr. Lam Ching Kam	322	–	–	–	–	–	322
	966	16,929	7,596	324	306	2,479	28,600

Note 1:

Mr. Xu Younong retired as an executive director with effect from 15 January 2016 and Mr. Kan Naigui was appointed as an executive director with effect from 15 January 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

32 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)**(a) Directors' emoluments (continued)**

The remuneration of each of the directors of the Company for the year ended 31 December 2015 is set out as follows:

Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking:

Name of directors	Fees RMB'000	Salary RMB'000	Bonuses RMB'000	Housing allowance RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Employee share award schemes RMB'000	Total RMB'000
Executive directors							
Mr. Hui Wing Mau	-	5,027	838	-	8	-	5,873
Mr. Hui Sai Tan, Jason	-	5,666	468	-	15	1,301	7,450
Mr. Xu Younong	-	1,571	687	-	90	1,519	3,867
Ms. Tang Fei	-	1,440	866	60	90	990	3,446
Mr. Liao Lujang	-	1,932	501	144	92	1,364	4,033
Non-executive director							
Mr. Liu Sai Fei (Note 1)	-	3,570	595	-	8	2,261	6,434
Independent non-executive directors							
Ms. Kan Lai Kuen, Alice	302	-	-	-	-	-	302
Mr. Lu Hong Bing	302	-	-	-	-	-	302
Mr. Lam Ching Kam	302	-	-	-	-	-	302
	906	19,206	3,955	204	303	7,435	32,009

Note 1:

Mr. Liu Sai Fei was re-designated from an executive director to a non-executive director with effect from 9 January 2015.

(b) Directors' retirement benefits

None of the directors received or will receive any retirement benefits during the year.

(c) Directors' termination benefits

None of the directors received or will receive any termination benefits during the year.

(d) Consideration provided to third parties for making available directors' services

The Group did not pay consideration to any third parties for making available directors' services during the year.

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings were made available in favour of directors, bodies corporate controlled by and entities connected with directors subsisted at the end of the year or at any time during the year.

(f) Directors' material interests in transactions, arrangements or contracts

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

33 INCOME TAX EXPENSE

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Current income tax		
– PRC enterprise income tax	3,232,300	3,241,700
– PRC withholding income tax	31,544	30,127
– PRC land appreciation tax	2,011,855	1,695,965
	5,275,699	4,967,792
Deferred income tax (Note 14)		
– PRC enterprise income tax	184,794	335,874
– PRC withholding income tax	225,000	260,005
	5,685,493	5,563,671

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the companies within the Group as follows:

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Profit before income tax	13,195,878	13,722,409
Add: Share of results of associated companies and joint ventures	448,391	483,169
Land appreciation tax	(2,011,855)	(1,695,965)
	11,632,414	12,509,613
Calculated at PRC enterprise income tax rate of 25% (2015:25%)	2,908,104	3,127,403
Effect of different tax rates in other countries or regions	(24,823)	(49,504)
Expenses not deductible for income tax purposes (Note (a))	598,365	615,573
Income not subject to tax (Note (b))	(70,952)	(129,168)
Tax losses not recognised	6,400	13,270
	3,417,094	3,577,574
PRC enterprise income tax charge		
	2,011,855	1,695,965
PRC land appreciation tax charge		
Current income tax – PRC withholding income tax	31,544	30,127
Deferred income tax – PRC withholding income tax	225,000	260,005
	5,685,493	5,563,671

Notes:

- (a) Expenses and losses not deductible for income tax purposes mainly resulted from net exchange losses and expenses incurred by the Company and its subsidiaries established in the British Virgin Islands which are not deductible for tax purpose.
- (b) Income not subject to tax arose mainly from interest income and net exchange gains earned by companies incorporated in Cayman Islands, the British Virgin Islands and Hong Kong.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

33 INCOME TAX EXPENSE (CONTINUED)

Hong Kong profits tax

No Hong Kong profits tax has been provided for as the Group has no assessable profit in Hong Kong for the year ended 31 December 2016 (2015: Nil).

PRC enterprise income tax

PRC enterprise income tax is provided for at 25% of the profits for the PRC statutory financial reporting purpose, adjusted for those items which are not assessable or deductible for the PRC enterprise income tax purposes.

PRC land appreciation tax

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

PRC withholding income tax

According to the new Enterprise Income Tax Law of the PRC, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong according to the tax treaty arrangements between the PRC and Hong Kong.

Gain on disposal of an investment in the PRC by overseas holding companies and intra-group charges to the PRC subsidiaries by overseas subsidiaries may also be subject to withholding tax of 10%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

34 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2016	2015
Profit attributable to the equity holders of the Company (RMB'000)	5,171,855	6,115,784
Weighted average number of ordinary shares in issue (thousands)	3,433,844	3,460,330
Basic earnings per share (RMB cents)	150.6	176.7

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue for the potential dilutive effect caused by the shares granted under the Share Award Scheme assuming they were exercised.

	Year ended 31 December	
	2016	2015
Profit attributable to the equity holders of the Company (RMB'000)	5,171,855	6,115,784
Weighted average number of ordinary shares in issue (thousands)	3,433,844	3,460,330
Adjustment for shares granted under Share Scheme (thousands)	4,470	5,047
Weighted average number of ordinary shares for diluted earnings per share (thousands)	3,438,314	3,465,377
Diluted earnings per share (RMB cents)	150.4	176.4

35 DIVIDENDS

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Interim dividends paid of HK32 cents (2015: HK30 cents) per ordinary share (Note (a))	954,318	821,541
Proposed final dividends of HK44 cents (2015: HK40 cents) per ordinary share (Note (b))	1,318,310	1,163,728
Other dividends paid	192,475	51,491
	2,465,103	2,036,760

Notes:

- (a) An interim dividend in respect of the six months ended 30 June 2016 of HK26 cents per ordinary share and a special dividend of HK6 cents per ordinary share, amounting to HK\$1,111,222,000 (equivalent to RMB954,318,000) was paid in September 2016 (RMB821,541,000 relating to 2015 interim dividend paid in 2015).
- (b) At a meeting held on 29 March 2017, the directors proposed a final dividend of HK44 cents per ordinary share for the year ended 31 December 2016. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation for the year ending 31 December 2016 upon approval by the shareholders at the forthcoming annual general meeting of the Company.

A final dividend of RMB1,163,728,000 relating to the year ended 31 December 2015 was paid in 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Net cash generated from operations:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	13,195,878	13,722,409
Adjustments for:		
Interest income	(369,832)	(341,262)
Interest expense	682,076	560,883
Provision for impairment of receivables	57,362	82,218
Provision for impairment loss on completed properties held for sale	173,295	143,814
Depreciation	430,149	430,066
Gain on disposal of property and equipment	(90)	(5,295)
Share of results of associated companies	(37,584)	(108,684)
Share of results of joint ventures	485,975	591,853
Net gain on disposal of subsidiaries with loss of control	(476,406)	(991,456)
Net gain on acquisition of a subsidiary	(12,497)	–
Gain on deemed disposal of subsidiaries with loss of control	–	(7,123)
Gain on disposal/closure of associated companies	–	(40,904)
Gain on acquisition of equity interests in associated companies, joint ventures and obtaining control	–	(328,626)
Amortisation of land use rights	84,180	73,963
Fair value gain on derivative financial instruments	(140,478)	(43,393)
Gain on disposal of investment in structured products issued by banks	(93,523)	–
Fair value gains on investment properties	(1,996,673)	(2,776,694)
Write-off of intangible assets	26	–
Value of employee services arising from equity-settled share based payment scheme	50,005	92,205
Net exchange losses	863,702	1,189,027
	12,895,565	12,243,001
Changes in working capital:		
Properties under development, completed properties held for sale and prepayment for acquisition of land use rights	(1,640,725)	(4,104,780)
Restricted cash	(317,701)	205,736
Trade and other receivables and prepayments	(7,223,588)	(1,766,817)
Trade and other payables	1,679,743	(423,880)
Advanced proceeds received from customers	(152,277)	(4,909,206)
Amounts due to related companies excluding non-controlling interests	388,928	9,408,656
Net cash generated from operations	5,629,945	10,652,710

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

Particulars of the principal subsidiaries, associated companies and joint ventures of the Group as at 31 December 2016 are as follows:

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2016	Principal activities
Principal subsidiaries – established and operation conducted in the PRC					
上海世茂股份有限公司 (Shanghai Shimao Co., Ltd.)	1 July 1992	Foreign investment enterprise	Registered capital RMB2,679,405,901	58.92%	Property development
上海世茂房地產有限公司 (Shanghai Shimao Real Estate Co., Ltd.)	15 March 2000	Foreign investment enterprise	Registered capital US\$75,000,000	100%	Property development
上海世茂國際廣場有限責任公司 (Shanghai Shimao International Plaza Co., Ltd.)	15 September 1994	Foreign investment enterprise	Registered capital RMB1,600,000,000	100%	Hotel and shopping mall
上海世茂建設有限公司 (Shanghai Shimao Jianshe Co., Ltd.)	16 March 2001	Foreign investment enterprise	Registered capital RMB540,000,000	100%	Investment holding
上海世茂莊園置業有限公司 (Shanghai Shimao Manor Real Estate Co., Ltd.)	19 June 2002	Foreign investment enterprise	Registered capital US\$18,400,000	100%	Property development and hotel
上海世茂北外灘開發建設有限公司 (Shanghai Shimao North Bund Co., Ltd.)	17 May 2002	Foreign investment enterprise	Registered capital HK\$650,000,000	100%	Hotel
北京世茂投資發展有限公司 (Beijing Shimao Investment and Development Co., Ltd.)	26 December 2000	Foreign investment enterprise	Registered capital RMB755,780,000	100%	Property development
哈爾濱世茂濱江新城開發建設有限公司 (Harbin Shimao Riviera New City Development and Construction Co., Ltd.)	24 March 2004	Foreign investment enterprise	Registered capital HK\$548,000,000	100%	Property development
常熟世茂房地產開發有限公司 (Changshu Shimao Real Estate Development Co., Ltd.)	24 December 2004	Foreign investment enterprise	Registered capital HK\$440,000,000	100%	Property development
昆山世茂蝶湖灣開發建設有限公司 (Kunshan Shimao Butterfly Bay Development and Construction Co., Ltd.)	10 November 2003	Foreign investment enterprise	Registered capital RMB412,410,000	100%	Property development
武漢世茂錦繡長江房地產開發有限公司 (Wuhan Shimao Splendid River Real Estate Development Co., Ltd.)	6 June 2005	Foreign investment enterprise	Registered capital US\$114,269,000	100%	Property development
昆山世茂房地產開發有限公司 (Kunshan Shimao Real Estate Co., Ltd.)	24 December 2003	Domestic enterprise	Registered capital RMB547,668,147	58.92%	Property development
上海世茂新體驗置業有限公司 (Shanghai Shimao Wonderland Real Estate Co., Ltd.)	6 March 2006	Domestic enterprise	Registered capital RMB391,092,834	58.92%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2016	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
紹興世茂新城房地產開發有限公司 (Shaoxing Shimao New City Real Estate Development Co., Ltd.)	11 July 2006	Foreign investment enterprise	Registered capital US\$52,350,000	100%	Property development
紹興世茂置業有限公司 (Shaoxing Shimao Real Estate Co., Ltd.)	11 July 2006	Foreign investment enterprise	Registered capital US\$130,030,000	100%	Property development
蕪湖世茂房地產開發有限公司 (Wuhu Shimao Real Estate Development Co., Ltd.)	8 September 2006	Foreign investment enterprise	Registered capital US\$56,500,000	100%	Property development
煙台世茂置業有限公司 (Yantai Shimao Real Estate Co., Ltd.)	6 September 2006	Foreign investment enterprise	Registered capital US\$48,500,000	100%	Property development
常州世茂房地產有限公司 (Changzhou Shimao Real Estate Co., Ltd.)	27 November 2006	Foreign investment enterprise	Registered capital US\$323,730,000	100%	Property development
青島世茂新城房地產開發有限公司 (Qingdao Shimao New City Property Development Co., Ltd.)	29 April 2010	Foreign Investment enterprise	Registered capital US\$159,980,000	100%	Property development
杭州世茂置業有限公司 (Hangzhou Shimao Real Estate Co., Ltd.)	13 December 2006	Foreign investment enterprise	Registered capital US\$111,900,000	100%	Property development
徐州世茂新城房地產開發有限公司 (Xuzhou Shimao New City Real Estate Development Co., Ltd.)	14 February 2007	Foreign investment enterprise	Registered capital US\$75,980,000	100%	Property development
徐州世茂置業有限公司 (Xuzhou Shimao Property Co., Ltd.)	14 February 2007	Domestic enterprise	Registered capital RMB491,412,600	58.92%	Property development
福州世茂置業有限公司 (Fuzhou Shimao Property Co., Ltd.)	5 July 2007	Foreign investment enterprise	Registered capital RMB430,000,000	100%	Property development
福州世茂新城房地產開發有限公司 (Fuzhou Shimao New City Real Estate Development Co., Ltd.)	5 July 2007	Foreign investment enterprise	Registered capital RMB880,000,000	100%	Property development
蕪湖世茂新發展置業有限公司 (Wuhu Shimao New Development Property Co., Ltd.)	16 May 2007	Domestic enterprise	Registered capital RMB110,000,000	58.92%	Property development
蕪湖世茂新世紀置業有限公司 (Wuhu Shimao New Century Property Co., Ltd.)	26 September 2007	Foreign investment enterprise	Registered capital RMB35,000,000	100%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2016	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
瀋陽世茂新世紀房地產開發有限公司 (Shenyang Shimao New Century Real Estate Co., Ltd.)	24 May 2007	Domestic enterprise	Registered capital RMB581,512,000	58.92%	Property development
瀋陽世茂新紀元置業有限公司 (Shenyang Shimao New Era Property Co., Ltd.)	24 May 2007	Foreign investment enterprise	Registered capital HK\$257,000,000	100%	Property development
大連世茂龍河發展有限公司 (Dalian Shimao Dragon River Development Co., Ltd.)	9 June 2006	Foreign investment enterprise	Registered capital US\$109,600,000	100%	Property development
蘇州世茂投資發展有限公司 (Suzhou Shimao Investment & Development Co., Ltd.)	2 March 2007	Domestic enterprise	Registered capital RMB526,795,630	58.92%	Property development
蘇州世茂置業有限公司 (Suzhou Shimao Property Co., Ltd.)	26 January 2007	Foreign investment enterprise	Registered capital US\$178,000,000	100%	Property development
紹興世茂新紀元置業有限公司 (Shaoxing Shimao New Era Property Co., Ltd.)	13 July 2007	Domestic enterprise	Registered capital RMB245,520,127	58.92%	Property development
紹興世茂新置業發展有限公司 (Shaoxing Shimao New Property Development Co., Ltd.)	13 July 2007	Foreign investment enterprise	Registered capital US\$14,500,000	100%	Property development
北京良譽房地產開發有限公司 (Beijing Liangyu Real Estate development Co., Ltd.)	7 April 2013	Foreign investment enterprise	Registered capital RMB20,000,000	50%	Property development
牡丹江世茂置業有限公司 (Mudanjiang Shimao Property Co., Ltd.)	4 September 2007	Foreign investment enterprise	Registered capital US\$16,000,000	95%	Property development
牡丹江世茂新城房地產開發有限公司 (Mudanjiang Shimao New City Real Estate Development Co., Ltd.)	4 September 2007	Foreign investment enterprise	Registered capital US\$29,980,000	100%	Property development
常熟世茂新發展置業有限公司 (Changshu Shimao New Development Property Co., Ltd.)	24 August 2007	Domestic enterprise	Registered capital RMB692,174,000	58.92%	Property development
余姚世茂牟山湖休閒度假區開發有限公司 (Yuyao Shimao Moushanhu Leisure Resort Development Co., Ltd.)	21 October 2010	Domestic enterprise	Registered capital RMB200,000,000	70%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2016	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
南通世茂房地產開發有限公司 (Nantong Shimao Real Estate Development Co., Ltd.)	14 December 2012	Domestic enterprise	Registered capital RMB100,000,000	100%	Property development
南京碩天投資管理有限公司 (Nanjing Shuotian Investment & Management Co., Ltd.)	18 December 2012	Domestic enterprise	Registered capital RMB100,000,000	100%	Property development
天津生態城世茂投資發展有限公司 (Tianjin Eco-City Shimao Investment & Development Co., Ltd.)	12 August 2011	Domestic enterprise	Registered capital RMB162,644,691	75%	Property development
福州世茂新發展房地產開發有限公司 (Fuzhou Shimao New Development Real Estate Co., Ltd.)	18 October 2012	Domestic enterprise	Registered capital RMB878,000,000	100%	Property development
常州世茂新城房地產開發有限公司 (Changzhou Shimao New City Real Estate Development Co., Ltd.)	12 February 2007	Domestic enterprise	Registered capital RMB269,300,000	58.92%	Property development
張家港世茂房地產開發有限公司 (Zhangjiagang Shimao Real Estate Development Co., Ltd.)	12 July 2013	Domestic enterprise	Registered capital RMB1,000,000,000	51%	Property development
昆山世茂新發展置業有限公司 (Kunshan Shimao New Development Property Co., Ltd.)	12 September 2007	Foreign investment enterprise	Registered capital US\$49,980,000	100%	Property development
成都世盈投資管理諮詢有限公司 (Chengdu Shiyong Investment Management Consulting Co., Ltd.)	20 September 2007	Foreign investment enterprise	Registered capital US\$29,980,000	100%	Property development
上海世源建材貿易有限公司 (Shanghai Shine Construction Materials Trading Co., Ltd.)	22 January 2007	Foreign investment enterprise	Registered capital HK\$65,000,000	100%	Trading of construction material
上海世盈投資管理有限公司 (Shanghai Shiyong Investment Management Co., Ltd.)	21 August 2007	Domestic enterprise	Registered capital RMB200,000,000	100%	Investment holding
廈門信誠建築裝潢有限公司 (Xiamen Xincheng Building Decoration Co., Ltd.)	6 March 2007	Domestic enterprise	Registered capital RMB10,000,000	100%	Trading of construction material
牡丹江睿智營銷企劃有限公司 (Mudanjiang Ruizhi Marketing Planning Co., Ltd.)	4 December 2007	Domestic enterprise	Registered capital RMB1,000,000	100%	Marketing

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2016	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
青島世茂投資發展有限公司 (Qingdao Shimao Investment & Development Co., Ltd.)	27 May 2011	Domestic enterprise	Registered capital RMB450,000,000	58.92%	Property development
咸陽世茂房地產開發有限公司 (Xianyang Shimao Real Estate Development Co., Ltd.)	29 April 2004	Foreign investment enterprise	Registered capital HK\$30,000,000	100%	Property development
上海碧橙房地產有限公司 (Shanghai Bicheng Real Estate Co., Ltd.)	28 September 2003	Domestic enterprise	Registered capital RMB236,200,000	100%	Property development
福建世茂投資發展有限公司 (Fujian Shimao Investment and Development Co., Ltd.)	17 November 2003	Foreign investment enterprise	Registered capital RMB200,000,000	79.46%	Property development
南京世茂房地產開發有限公司 (Nanjing Shimao Real Estate Development Co., Ltd.)	23 July 2004	Foreign investment enterprise	Registered capital RMB328,000,000	79.46%	Property development
上海星橙房地產有限公司 (Shanghai Xingcheng Real Estate Co., Ltd.)	25 January 2006	Domestic enterprise	Registered capital RMB28,000,000	100%	Property development
上海世茂投資管理有限公司 (Shanghai Shimao Investment Management Co., Ltd.)	11 May 2009	Domestic enterprise	Registered capital RMB50,000,000	100%	Investment holding
上海逸景園林景觀工程有限公司 (Shanghai Yijing Landscaping Architect Co., Ltd.)	3 September 2009	Domestic enterprise	Registered capital RMB10,000,000	100%	Architect
福建世茂新里程投資發展有限公司 (Fujian Shimao New Miles Investment Development Co., Ltd.)	10 October 2009	Domestic enterprise	Registered capital RMB1,867,000,000	79.05%	Property development
上海世茂企業發展有限公司 (Shanghai Shimao Enterprises Development Co., Ltd.)	22 June 2000	Domestic enterprise	Registered capital RMB101,723,586	50.85%	Investment holding
泰州世茂新發展置業有限公司 (Taizhou Shimao New Development Property Co., Ltd.)	17 January 2008	Foreign investment enterprise	Registered capital US\$20,000,000	100%	Property development
泰州世茂新城房地產開發有限公司 (Taizhou Shimao New City Real Estate Development Co., Ltd.)	22 February 2008	Foreign investment enterprise	Registered capital US\$40,000,000	100%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2016	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
武漢世茂嘉年華置業有限公司 (Wuhan Shimao Jianianhua Property Co., Ltd.)	14 December 2009	Domestic enterprise	Registered capital RMB200,000,000	79.05%	Property development
寧波世茂房地產開發有限公司 (Ningbo Shimao Real Estate Development Co., Ltd.)	24 December 2007	Foreign investment enterprise	Registered capital US\$99,980,000	100%	Property development
大連世茂嘉年華置業有限公司 (Dalian Shimao Jianianhua Property Co., Ltd.)	4 September 2009	Domestic enterprise	Registered capital US\$100,000,000	100%	Property development
天津世茂新里程置業有限公司 (Tianjin Shimao Xinlicheng Property Co., Ltd.)	5 November 2009	Domestic enterprise	Registered capital RMB470,000,000	100%	Property development
成都世茂置業有限公司 (Chengdu Shimao Property Co., Ltd.)	13 October 2009	Domestic enterprise	Registered capital RMB299,021,884	100%	Property development
南通萃泰機電科技有限公司 (Nantong Cuitai Electromechanical & Technology Co., Ltd.)	18 December 2012	Foreign investment enterprise	Registered capital US\$30,000,000	100%	Research and trading
蘇州世茂新發展房地產開發有限公司 (Suzhou Shimao New Development Real Estate Co., Ltd.)	16 April 2013	Domestic enterprise	Registered capital RMB1,020,000,000	51%	Property development
蘇州世茂新世紀房地產開發有限公司 (Suzhou Shimao New Century Development Real Estate Co., Ltd.)	16 April 2013	Domestic enterprise	Registered capital RMB1,470,678,120	51%	Property development
上海澤承投資管理有限公司 (Shanghai Zecheng Investment & Management Co., Ltd.)	20 December 2013	Domestic enterprise	Registered capital RMB60,000,000	50%	Investment holding
杭州世茂新領域房地產開發有限公司 (Hangzhou Shimao New Domain Real Estate Development Co., Ltd.)	22 March 2013	Domestic enterprise	Registered capital RMB620,000,000	62%	Property development
杭州世融匯置業有限公司 (Hangzhou Shirong Huiying Property Co., Ltd.)	29 May 2013	Foreign investment enterprise	Registered capital US\$150,000,000	51%	Property development
杭州世茂嘉年華置業有限公司 (Hangzhou Shimao Carnival Property Co., Ltd.)	16 October 2013	Domestic enterprise	Registered capital RMB2,000,000,000	100%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2016	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
南昌水城投資股份有限公司 (Nanchang Shuicheng Investment Co., Ltd.)	8 December 2005	Domestic enterprise	Registered capital RMB350,000,000	58.92%	Property development
南昌世茂新紀元置業有限公司 (Nanchang Shimao New Era Property Co., Ltd.)	7 November 2013	Domestic enterprise	Registered capital RMB1,836,735,000	51%	Property development
天津世茂新體驗置業有限公司 (Tianjin Shimao New Experience Property Co., Ltd.)	11 September 2013	Domestic enterprise	Registered capital RMB50,000,000	100%	Property development
山東世盈置業有限公司 (Shandong Shiyong Property Co., Ltd.)	8 March 2013	Domestic enterprise	Registered capital RMB1,220,000,000	50.82%	Property development
北京世承投資管理有限公司 (Beijing Shicheng Investment & Management Co., Ltd.)	21 June 2013	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
上海瓊宇投資管理有限公司 (Shanghai Qiongyu Investment & Management Co., Ltd.)	21 March 2013	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
上海朋權投資管理有限公司 (Shanghai Pengquan Investment & Management Co., Ltd.)	21 March 2013	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
上海進璟投資管理有限公司 (Shanghai Jinjing Investment & Management Co., Ltd.)	26 April 2013	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
上海建木投資管理有限公司 (Shanghai Jianmu Investment & Management Co., Ltd.)	24 July 2013	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
上海西科投資管理有限公司 (Shanghai Xike Investment & Management Co., Ltd.)	24 July 2013	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
泉州諾信投資有限公司 (Quanzhou Nuoxin Investment Co., Ltd.)	22 October 2013	Domestic enterprise	Registered capital RMB1,000,000	100%	Investment holding
大連世茂新領域置業有限公司 (Dalian Shimao New Domain Property Co., Ltd.)	29 October 2013	Foreign investment enterprise	Registered capital US\$136,000,000	100%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2016	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
大連世茂新體驗置業有限公司 (Dalian Shimao New Experience Property Co., Ltd.)	29 October 2013	Foreign investment enterprise	Registered capital US\$120,000,000	100%	Property development
石獅世茂房地產開發有限公司 (Shishi Shimao Real Estate Development Co., Ltd.)	16 May 2013	Domestic enterprise	Registered capital RMB639,000,000	55.67%	Property development
石獅世茂新城房地產開發有限公司 (Shishi Shimao New City Real Estate Development Co., Ltd.)	16 May 2013	Domestic enterprise	Registered capital RMB781,000,000	55.67%	Property development
大廠回族自治縣中基大業房地產 開發有限公司 (Dachang Hui Autonomous County Real Estate Development Co., Ltd.)	11 August 2011	Domestic enterprise	Registered capital RMB493,570,000	65%	Property development
福建世茂置業有限公司 (Fujian Shimao Property Co., Ltd.)	16 July 2009	Domestic enterprise	Registered capital RMB986,560,000	100%	Property development
泉州世茂新領域置業有限公司 (Quanzhou Shimao New Domain Property Co., Ltd.)	15 March 2011	Domestic enterprise	Registered capital RMB1,037,750,000	100%	Property development
廈門世茂新紀元置業有限公司 (Xiamen Shimao New Era Property Co., Ltd.)	21 August 2014	Domestic enterprise	Registered capital RMB1,300,000,000	51%	Property development
上海容承企業管理有限公司 (Shanghai Rongcheng Enterprises Management Co., Ltd.)	21 January 2014	Domestic enterprise	Registered capital RMB200,000,000	100%	Investment holding
文昌世茂置業有限公司 (Wenchang Shiamo Property Co., Ltd.)	19 April 2011	Domestic enterprise	Registered capital RMB550,000,000	51%	Property development
紹興世茂投資發展有限公司 (Shaoxing Shiamo Investment Development Co., Ltd.)	13 July 2007	Domestic enterprise	Registered capital RMB483,457,740	58.92%	Property development
蘇州世茂新里程置業有限公司 (Suzhou Shimao New Miles Property Co., Ltd.)	17 January 2013	Domestic enterprise	Registered capital RMB600,000,000	58.92%	Property development
青島世茂濱海置業有限公司 (Qingdao Shimao Binhai Property Co., Ltd.)	8 November 2011	Domestic enterprise	Registered capital RMB200,000,000	58.92%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2016	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
上海翊宇投資管理有限公司 (Shanghai Yiyu Investment Management Co., Ltd.)	30 January 2015	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
上海晟翊投資管理有限公司 (Shanghai Shengyi Investment Management Co., Ltd.)	30 January 2015	Domestic enterprise	Registered capital RMB5,000,000	100%	Investment holding
上海幻境投資管理有限公司 (Shanghai Huanjing Investment Management Co., Ltd.)	15 February 2015	Domestic enterprise	Registered capital HK\$10,000,000	100%	Investment holding
武漢濱江天地商業經營管理有限公司 (Wuhan River Tiandi Business Management Co., Ltd.)	12 January 2015	Domestic enterprise	Registered capital RMB1,000,000	100%	Investment holding
南京漢佑商業管理有限公司 (Nanjing Hanyou Business Management Co., Ltd.)	21 January 2015	Domestic enterprise	Registered capital RMB1,000,000	100%	Investment holding
大連旅順茂盛商業經營管理有限公司 (Dalian Lvshun Maosheng Business Management Co., Ltd.)	12 January 2015	Domestic enterprise	Registered capital RMB1,000,000	100%	Investment holding
南京世招基置業有限公司 (Nanjing Shizhao Quansheng Property Co., Ltd.)	27 January 2015	Domestic enterprise	Registered capital RMB250,000,000	51%	Investment holding
南京世茂星空投資有限公司 (Nanjing Shimao Xingkong Investment Co., Ltd.)	17 April 2015	Domestic enterprise	Registered capital RMB500,000,000	80%	Investment holding
銀川海茂房地產有限公司 (Yinchuan Haimao Real Estate Co., Ltd.)	20 May 2015	Domestic enterprise	Registered capital RMB100,000,000	51%	Property development
上海愛世集商務服務有限公司 (Shanghai Aishiji Business Service Co., Ltd.)	27 May 2015	Domestic enterprise	Registered capital RMB1,000,000	100%	Investment holding
上海世茂旅遊發展有限公司 (Shanghai Shimao Travel Development Co., Ltd.)	11 June 2015	Domestic enterprise	Registered capital RMB10,000,000	100%	Others
重慶浚亮房地產開發有限公司 (Chongqing Junliang Real Estate Development Co., Ltd.)	25 July 2007	Domestic enterprise	Registered capital US\$200,000,000	100%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2016	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
福州世茂新世紀房地產開發有限公司 (Fuzhou Shimao New Century Real Estate Development Co., Ltd.)	23 December 2010	Domestic enterprise	Registered capital RMB1,192,700,000	100%	Property development
福州世茂新紀元置業有限公司 (Fuzhou Shimao New Era Property Co., Ltd.)	23 December 2010	Domestic enterprise	Registered capital RMB887,900,000	100%	Property development
南京海峽城開發建設有限公司 (Nanjing Straits City Development Construction Co., Ltd.)	26 April 2011	Domestic enterprise	Registered capital US\$692,000,000	80%	Property development
平潭海峽如意城開發建設有限公司 (Pingtan Straits Ruyi City Development Construction Co., Ltd.)	31 May 2011	Domestic enterprise	Registered capital RMB615,630,000	80%	Property development
平潭海峽如意城新都會開發建設有限公司 (Pingtan Straits Ruyi City Xinduhui Development Construction Co., Ltd.)	31 May 2011	Domestic enterprise	Registered capital RMB226,050,000	80%	Property development
成都世茂房地產開發有限公司 (Chengdu Shimao Real Estate Development Co., Ltd.)	26 November 2010	Domestic enterprise	Registered capital RMB1,430,000,000	100%	Property development
天津生態城世茂新紀元投資開發有限公司 (Tianjin Shengtai City Shimao New Era Investment Development Co., Ltd.)	9 November 2009	Domestic enterprise	Registered capital RMB409,140,400	75%	Property development
武漢虹玉置業有限公司 (Wuhan Hongyu property Co., Ltd.)	9 May 2012	Domestic enterprise	Registered capital RMB1,295,600,000	51.22%	Property development
瀋陽世茂新發展置業有限公司 (Shenyang Shimao New Development Co., Ltd.)	5 December 2006	Domestic enterprise	Registered capital US\$108,900,000	100%	Property development
武漢世茂新城房地產開發有限公司 (Wuhan Shimao New City Real Estate Development Co., Ltd.)	23 March 2012	Domestic enterprise	Registered capital RMB526,000,000	100%	Property development
南寧世茂新紀元房地產開發有限公司 (Nanning Shimao New Era Real Estate Development Co., Ltd.)	2 July 2014	Domestic enterprise	Registered capital RMB120,000,000	100%	Property development
寧波世茂新領域置業有限公司 (Ningbo Shimao New Domain Property Co., Ltd.)	6 February 2013	Domestic enterprise	Registered capital US\$72,000,000	100%	Property development
簡陽世茂房地產開發有限公司 (Jianyang Shimao Real Estate Development Co., Ltd.)	20 January 2014	Domestic enterprise	Registered capital RMB100,000,000	100%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2016	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
寧波世茂新紀元置業有限公司 (Ningbo Shimao New Era Property Co., Ltd.)	27 May 2010	Domestic enterprise	Registered capital RMB50,000,000	100%	Property development
寧波世茂新騰飛置業有限公司 (Ningbo Shimao Xintengfei Property Co., Ltd.)	09 June 2013	Domestic enterprise	Registered capital RMB1,238,500,000	58.92%	Property development
常熟世茂新紀元置業有限公司 (Changshu Shimao New Era Property Co., Ltd.)	11 September 2013	Domestic enterprise	Registered capital RMB850,000,000	58.92%	Property development
上海茂沁投資管理有限公司 (Shanghai Maoqin Investment Management Co., Ltd.)	5 December 2013	Domestic enterprise	Registered capital RMB1,371,770,000	58.92%	Investment holding
濟南世茂天城置業有限公司 (Jinan Shimao Tiancheng Property Co., Ltd.)	7 January 2014	Domestic enterprise	Registered capital RMB1,131,000,000	58.92%	Property development
天津世茂新世紀置業有限公司 (Tianjin Shimao New Century Property Co., Ltd.)	6 May 2016	Domestic enterprise	Registered capital RMB350,000,000	100%	Property development
天津茂晟酒店管理有限公司 (Tianjin Maosheng Hotel Management Co., Ltd.)	19 October 2016	Domestic enterprise	Registered capital RMB10,000,000	100%	Hotel
泰州世悅酒店管理有限公司 (Taizhou Shiyue Hotel Management Co., Ltd.)	27 November 2016	Domestic enterprise	Registered capital RMB10,000,000	100%	Hotel
泉州世茂融信新世紀房地產有限公司 (Quanzhou Shimao Rongxin New Century Real Estate Co., Ltd.)	10 October 2016	Domestic enterprise	Registered capital RMB50,000,000	79.05%	Property development
泉州世茂融信新領航房地產有限公司 (Quanzhou Shimao Rongxin New Pioneer Real Estate Co., Ltd.)	10 October 2016	Domestic enterprise	Registered capital RMB50,000,000	79.05%	Property development
固安茂悅房地產開發有限公司 (Gu'an Maoyue Real Estate Development Co., Ltd.)	25 August 2016	Domestic enterprise	Registered capital RMB50,000,000	80%	Property development
牡丹江穆悅融資租賃有限公司 (Mudanjiang Muyue Finance Lease Co., Ltd.)	6 May 2016	Domestic enterprise	Registered capital US\$50,000,000	100%	Finance lease

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2016	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
南京世茂新發展置業有限公司 (Nanjing Shimao New Development Property Co., Ltd.)	13 January 2016	Domestic enterprise	Registered capital RMB3,000,000,000	75.99%	Property development
南京世茂新領航置業有限公司 (Nanjing Shimao New Pioneer Property Co., Ltd.)	1 June 2016	Domestic enterprise	Registered capital RMB7,700,000,000	56.80%	Property development
銀川世茂新發展置業有限公司 (Yinchuan Shimao New Development Property Co., Ltd.)	12 January 2016	Domestic enterprise	Registered capital RMB100,000,000	100%	Property development
成都世茂新世紀商業管理有限公司 (Chengdu Shimao New Century Business Management Co., Ltd.)	13 July 2016	Domestic enterprise	Registered capital RMB1,000,000	100%	Investment holding
南京世茂商業管理有限公司 (Nanjing Shimao Business Management Co., Ltd.)	10 December 2016	Domestic enterprise	Registered capital RMB1,000,000	100%	Investment holding
張家港世茂新里程房地產開發有限公司 (Zhangjiagang Shimao New Miles Real Estate Development Co., Ltd.)	29 March 2016	Domestic enterprise	Registered capital RMB1,400,000,000	51%	Property development
上海鑫蕾融資租賃有限公司 (Shanghai Xinlei Finance Lease Co., Ltd.)	13 June 2016	Domestic enterprise	Registered capital US\$30,000,000	100%	Finance lease
上海繁英園林綠化工程有限公司 (Shanghai Fanying Landscaping Architect Co., Ltd.)	30 December 2014	Domestic enterprise	Registered capital RMB1,000,000	100%	Architect
上海茂怡酒店管理有限公司 (Shanghai Maoyi Hotel Management Co., Ltd.)	19 March 2014	Domestic enterprise	Registered capital RMB1,000,000	100%	Hotel
Principal subsidiaries – incorporated and operation conducted in the British Virgin Islands					
Shimao Property Holdings (BVI) Limited	23 August 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Advance Assets Holdings Limited	22 June 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Best Empire Investments Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Double Achieve Assets Limited	31 January 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

37 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2016	Principal activities
Principal subsidiaries – incorporated and operation conducted in the British Virgin Islands (continued)					
Ease Reach Group Limited	13 December 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
East Light Group Limited	12 May 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Everactive Properties Limited	2 May 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Highsharp International Limited	23 February 2007	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Keen Villa Limited	10 May 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Magic Dynasty Investments Limited	15 November 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Mega Universe Limited	10 July 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Peak Castle Assets Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Peak Gain International Limited	13 December 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Precise Choice Investments Limited	18 October 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Prime Master Holdings Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Shimao Management (Overseas) Limited	18 December 2002	Limited liability company	1 ordinary share of US\$1	100%	Management services
Significant Asset Group Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Vicking International Ltd.	19 January 1994	Limited liability company	50,000 ordinary shares of US\$50,000	100%	Investment holding
Wickfair Investments Limited	8 October 2004	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Year Grant Investments Limited	3 September 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Advance Solution Holdings Limited	9 June 2015	Limited liability company	1 ordinary share of US\$1	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2016	Principal activities
Principal subsidiaries – incorporated and operation conducted in the British Virgin Islands (continued)					
Ideal Sense Limited	27 May 2015	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
One Best Limited	29 May 2015	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Peak Dragon Limited	16 January 2015	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Assets Circle Limited	2 February 2016	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Classic Prime Limited	20 May 2016	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Unique Wonder Limited	24 August 2016	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Paramount Gain Limited	29 August 2016	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Fortune Spring Ventures Limited	8 November 2016	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Up Chance Holdings Limited	1 December 2016	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Able Noble Holdings Limited	12 December 2016	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Principal subsidiaries – incorporated and operation conducted in Hong Kong					
Brilliant Architectural and Construction Professional Consultancy Limited	28 July 2006	Limited liability company	100,000 ordinary shares of HK\$100,000	100%	Consultancy services
Bonus Boom Limited	13 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Brand Rise Limited	5 March 2013	Limited liability Company	1 ordinary share of HK\$1	100%	Property holding
Charm Field Group Limited	1 August 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Clear Rise Investments Limited	8 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Daily Right Holdings Limited	7 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

37 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2016	Principal activities
Principal subsidiaries – incorporated and operation conducted in Hong Kong (continued)					
Excel Grand Group Limited	22 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Excellent Space Limited	9 June 2015	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Fast Award Limited	9 June 2015	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Adventure Success Limited	25 November 2014	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Excel Mode Investments Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Faith Joy Investments Limited	7 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Fine Tune Investments Limited	5 June 2006	Limited liability company	1 ordinary share of HK\$1	100%	Holding of trademarks
Future Right Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Global Square Investments Limited	29 October 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Lion Kingdom Investments Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Modern Professional Architectural Design Limited	28 July 2006	Limited liability company	100,000 ordinary shares of HK\$100,000	100%	Design services
Mount Profit Investments Limited	14 December 2006	Limited liability company	2 ordinary shares of HK\$1,040,199,528	100%	Investment holding
New Sincere Investments Limited	11 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Power One Holdings Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Rich Noble Group Limited	8 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Rise Max International Limited	16 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2016	Principal activities
Principal subsidiaries – incorporated and operation conducted in Hong Kong (continued)					
Shimao Holdings Company Limited	3 February 1994	Limited liability company	395 million ordinary shares of HK\$395 million	100%	Investment holding
Swift Time Limited	18 March 2009	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Topwise Limited	29 March 2005	Limited liability company	1 ordinary share of HK\$1	100%	Management services
Associated companies – established and operation conducted in the PRC					
廣州利合房地產開發有限公司 (Guangzhou Li He Property Development Co., Ltd.)	5 February 2010	Foreign investment enterprise	Registered capital HK\$750,000,000	20%	Property development
成都恒裕房地產開發有限公司 (Chengdu Heng Yu Real Estate Development Co., Ltd.)	7 May 2010	Domestic enterprise	Registered capital RMB58,820,000	33.33%	Property development
南京明茂置業有限公司 (Nanjing Mingmao Real Estate Co., Ltd.)	5 February 2015	Domestic enterprise	Registered capital RMB820,000,000	49%	Property development
廣州誠譽房地產開發有限公司 (Guangzhou Chengyu Real Estate development Co., Ltd.)	25 November 2012	Domestic enterprise	Registered capital RMB60,000,000	50%	Investment holding
Associated companies – established and operation conducted in the British Virgin Islands					
Eagle Rights Limited	31 March 2010	Limited liability company	45,000,000 shares with no par value	33.33%	Investment holding
Joint ventures – established and operation conducted in the PRC					
無錫世茂房地產開發建設有限公司 (Wuxi Shimao Real Estate Development & Construction Co., Ltd.)	20 November 2009	Domestic enterprise	Registered capital RMB900,000,000	50%	Property development
天津津南新城房地產開發有限公司 (Tianjin Jinnan Xincheng Real Estate Development Co., Ltd.)	26 May 2010	Domestic enterprise	Registered capital RMB3,667,300,000	25%	Property development
天津和安投資有限公司 (Tianjin Hean Investment Co., Ltd.)	19 August 2010	Domestic enterprise	Registered capital RMB10,000,000	25%	Investment holding
南昌世茂新發展置業有限公司 (Nanchang Shimao New Development Property Co., Ltd.)	19 October 2010	Domestic enterprise	Registered capital RMB800,000,000	50%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

37 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2016	Principal activities
Joint ventures – established and operation conducted in the PRC (continued)					
長沙世茂房地產有限公司 (Changsha Shimao Real Estate Co., Ltd.)	21 July 2010	Domestic enterprise	Registered capital RMB500,000,000	50%	Property development
成都世茂投資有限公司 (Chengdu Shimao Investment Co., Ltd.)	17 November 2009	Domestic enterprise	Registered capital RMB200,000,000	50%	Property development
寧波世茂新世紀房地產開發有限公司 (Ningbo Shimao New Century Real Estate Development Co., Ltd.)	1 March 2013	Domestic enterprise	Registered capital RMB1,429,000,000	50%	Property development
南通世茂新紀元房地產開發有限公司 (Nantong Shimao New Era Real Estate Development Co., Ltd.)	18 June 2013	Domestic enterprise	Registered capital RMB700,000,000	50%	Property development
蘇州工業園區世茂湖濱置業有限公司 (Suzhou Shimao Industrial Park Lakeside Property Co., Ltd.)	29 October 2013	Domestic enterprise	Registered capital RMB1,400,000,000	49%	Property development
寧波世茂新里程置業有限公司 (Ningbo Shimao New Miles Property Co., Ltd.)	05 August 2011	Domestic enterprise	Registered capital RMB600,000,000	50%	Property development
長沙世茂投資有限公司 (Changsha Shimao Investment Co., Ltd.)	21 July 2010	Domestic enterprise	Registered capital RMB1,000,000,000	49%	Property development
寧波世茂新城房地產開發有限公司 (Ningbo Shimao New City Real Estate Development Co., Ltd.)	19 May 2010	Domestic enterprise	Registered capital RMB160,000,000	50%	Property development
上海世茂佘山匯置業有限公司 (Shanghai Shimao Sheshan Huiying Property Co., Ltd.)	14 September 2012	Domestic enterprise	Registered capital RMB860,000,000	50%	Property development
上海春日置業有限公司 (Shanghai Chunri Property Co., Ltd.)	3 August 2001	Domestic enterprise	Registered capital RMB90,000,000	45%	Property development
寧波世茂嘉年華置業有限公司 (Ningbo Shimao Jianianhua Property Co., Ltd.)	18 December 2013	Domestic enterprise	Registered capital RMB400,000,000	50%	Property development
Joint ventures – established and operation conducted in Hong Kong					
Fast Right Investments Limited	7 May 2007	Limited liability company	2 ordinary shares of HK\$2	50%	Investment holding
Kingtron Enterprises Limited	14 June 2007	Limited liability company	2 ordinary shares of HK\$2	50%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38 CONTINGENCIES AND FINANCIAL GUARANTEE CONTRACTS**(a) The Group had the following contingent liabilities:**

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Guarantees in respect of mortgage facilities for certain purchasers	20,614,857	14,099,968

Note:

The Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to retain the legal title and take over possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends when the Group obtained the "property title certificate" for the mortgagees, or when the Group obtained the "master property title certificate" upon completion of construction. The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the guarantees.

(b) The Group had the following financial guarantee liabilities:

	Year of maturity	As at 31 December	
		2016	2015
		RMB'000	RMB'000
Guarantee in respect of borrowings	2017-2021	6,298,249	7,534,077

Note:

The Group and other shareholders provided guarantees in proportion of their respective equity interests in certain joint ventures and associated companies for their bank borrowings. The respective guarantees provided by the Group amounted to RMB6,298,249,000 as at 31 December 2016 (2015: RMB7,534,077,000). The fair value of the financial guarantee contracts are not significant. The Directors are of the view that such obligation will not cause an outflow of the Group's resources embodying economic benefits.

(c) Contingencies for litigation

A bank filed a litigation against Shanghai Shimao, a subsidiary of the Company, alleging that Shanghai Shimao should repay the principal and interest of the borrowings in a total amount of approximately RMB390,000,000 on behalf of Hangzhou Shimao Century Property Co., Ltd. ("Hangzhou Shimao"), an associated company of Shanghai Shimao, since Hangzhou Shimao was in financial difficulty and Shanghai Shimao once provided guarantee in respect to its borrowings. The provision charge amounting to approximately RMB53,210,000 has been recognised in profit or loss within 'other income/other gains – net'. In the opinion of the Directors, after taking into consideration the appropriate legal advice, the outcome of these legal litigation will not give rise to any significant loss beyond the estimated amounts provided as at 31 December 2016.

For other litigation against the Group, the Directors are of the view that they would not cause an outflow of the Group's resources embodying economic benefits as at 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

39 COMMITMENTS**(a) Commitments for capital and property development expenditure**

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Contracted but not provided for		
– Property and equipment	1,114,851	2,170,294
– Land use rights (including those related to associated companies and joint ventures)	15,975,981	14,517,215
– Properties being developed by the Group for sale	25,840,875	20,325,672
	42,931,707	37,013,181

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within one year	145,786	129,443
Between two to five years	419,248	430,095
After five years	190,850	239,280
	755,884	798,818

40 SIGNIFICANT ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND TRANSACTIONS WITH NCI**(a) An associated company transferred to a subsidiary**

For the year ended 31 December 2016, the Group gained control in the following then associated company:

In June 2016, the Group ended the cooperation with its venture party in Jinan Caishi and acquired the remaining 67% equity interest from the associate party at a consideration of RMB67,000,000. The carrying value of the investment in associated company was RMB33,000,000 before the business combination. The purchase resulted in a net cash outflow of RMB66,996,000 and no gain was recognised from this acquisition.

	RMB'000
Consideration:	
Cash	67,000
Carrying value of equity interest in above companies held before the business combination	33,000
Total consideration	100,000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	4
Properties under development	2,605
Trade and other receivables and prepayments	97,541
Trade and other payables	(150)
Total identifiable net assets	100,000
Cash consideration paid	67,000
Cash and cash equivalents in the entity acquired	(4)
Net cash outflow arising from acquisition	66,996

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40 SIGNIFICANT ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND TRANSACTIONS WITH NCI (CONTINUED)**(b) Disposal of subsidiaries (with loss of control)**

For the year ended 31 December 2016, the Group disposed of certain equity interests in several wholly-owned subsidiaries as follows:

	RMB'000
Consideration received:	
Beijing Fortune Times Property Co., Ltd. (Note (ii))	2,898,409
Beijing Shimao Cinema Line Co., Ltd. (Note (iii))	17,190
Shanghai Ximei Investment and Development LLP (Note (iii))	45,766
Ningbo Shimao Jianianhua Property Co., Ltd. ("Ningbo Jianianhua") (Note (i))	200,000
	3,161,365

The disposal had resulted in total net gain of RMB476,406,000 (Note 28).

(i) Disposal of a subsidiary with loss of control and remaining interest retained as a joint venture

In November 2016, the Group disposed 50% equity interest in Ningbo Jianianhua. The remaining interest of the Group in this joint venture has a fair value of RMB200,000,000. The disposal resulted in a net cash inflow of RMB197,288,000 and a net gain of RMB16,365,000.

Net assets disposed and reconciliation of disposal gains and cash inflow on disposal are as follow:

	RMB'000
Properties under development	979,837
Trade and other receivables and prepayments	156,114
Cash and cash equivalents	2,712
Borrowings	(500,000)
Trade and other payables	(255,028)
	383,635
Net assets	383,635
Fair value of interests retained in joint ventures (Note 11)	200,000
Total consideration	200,000
Net assets disposed	(383,635)
	16,365
Disposal gain	16,365
Total consideration	200,000
Less: Cash and cash equivalents in the entities disposed	(2,712)
	197,288
Net cash inflow arising from disposal	197,288

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40 SIGNIFICANT ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND TRANSACTIONS WITH NCI (CONTINUED)**(b) Disposal of subsidiaries (with loss of control) (continued)****(ii) Disposal of subsidiaries without retained equity interests**

For the year ended 31 December 2016, the Group disposed certain equity interests in several wholly owned subsidiaries with total consideration of RMB2,961,365,000.

Net assets disposed with reconciliation of disposal gains and cash outflow on disposal are as follow:

	RMB'000
Investment properties (Note 7)	2,598,000
Property and equipment (Note 6)	3,582
Deferred income tax assets (Note 14)	27,146
Available-for-sale financial assets	70,000
Cash and cash equivalents	28,945
Deferred income tax liabilities (Note 14)	(483,797)
Other assets	308,390
Other liabilities	(20,943)
Net assets	2,531,323
Fair value of interests without retained in non-controlling interests	29,999
Total consideration	2,961,365
Net assets disposed	(2,531,323)
Disposal gain	460,041
Total consideration	2,961,365
Less: Cash and cash equivalents in the entities disposed	(28,945)
Net cash inflow arising from disposal	2,932,420

(c) Deemed disposal of subsidiaries

For the year ended 31 December 2016, the Group lost control of two then wholly-owned subsidiaries, namely, Xiamen Mujia Business Factoring Co., Ltd. and Shanghai Murun Consulting and Technology Co., Ltd., pursuant to capital injection by two new investors into these companies. The remaining interests of the Group in these joint ventures has a fair value of RMB250,000,000 and RMB490,000 respectively. After such capital injections, these companies became joint ventures of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40 SIGNIFICANT ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND TRANSACTIONS WITH NCI (CONTINUED)**(c) Deemed disposal of subsidiaries (continued)**

The following table summarises the net assets of Xiamen Mujia Business Factoring Co., Ltd. and Shanghai Murun Consulting and Technology Co., Ltd. at the date of disposal. The disposal resulted in a net cash outflow of RMB31,795,000 and no gain was recognised from these capital injections.

	The date of disposal RMB'000
Amounts due from related parties	749,226
Cash and cash equivalents	31,795
Other assets	114
Borrowings	(500,000)
Other liabilities	(30,645)
Net assets	250,490
Gain on deemed disposal of subsidiaries:	
Fair value of interests retained in joint ventures (Note 11)	250,490
Net assets disposal	(250,490)
Gain on deemed disposal	-
Net cash outflow arising from deemed disposal	(31,795)

(d) Deemed acquisition of subsidiaries

For the year ended 31 December 2016, the Group gained control of four then joint ventures:

Beijing FuWah Wulan Real Estate Development Co., Ltd., Great Wall Majestic Pte. Ltd., Beijing FuWah Great Wall Real Estate Development Co., Ltd. and Beijing FuWah Borong Real Estate Development Co., Ltd. became subsidiaries of the Group pursuant to the revised articles that confer the Group the exclusive decision making rights in all significant activities, including but not limited to operation and financing activities.

The following table summarises the net assets of these companies at the date of acquisition. These joint ventures had a total carrying value of RMB1,229,298,000 before the change of control. The acquisition resulted in a net cash inflow of RMB425,534,000 and no gain was recognised from these capital injections.

	The date of acquisition RMB'000
Properties under development	3,110,632
Property and equipment (Note 6)	137
Trade and other receivables and prepayments	1,114,327
Cash and cash equivalents	425,534
Trade and other payables	(1,947)
Borrowings	(901,060)
Advanced proceeds received	(1,289,027)
Total identifiable net assets	2,458,596
Non-controlling interests	(1,229,298)
Total acquired net assets	1,229,298
Net cash inflow arising from deemed acquisition	425,534

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40 SIGNIFICANT ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND TRANSACTIONS WITH NCI (CONTINUED)**(e) Acquisition of a subsidiary**

For the year ended 31 December 2016, the Group gained control of then subsidiary:

Shimao Aoya Holding Pty Ltd. became a subsidiary pursuant to the articles that confer the Group the exclusive decision making rights in all significant activities, including but not limited to operation and financing activities.

The following table summarises the net assets of these companies at the date of acquisition. The acquisition resulted in a net cash outflow of RMB513,000,000.

	The date of acquisition
	RMB'000
Inventories (Note 16)	298,133
Property and equipment (Note 6)	28,341
Land use rights (Note 8)	199,023
Total assets group	525,497
Gain on acquisition of subsidiaries:	
Total consideration	(513,000)
Total acquired net assets	525,497
Gain on acquisition	12,497
Net cash outflow arising from acquisition	(513,000)

(f) Transaction with non-controlling interests**(i) Capital contribution from non-controlling interests**

For the year ended 31 December 2016, non-controlling interests made several capital injections into the Group with total consideration of RMB6,556,880,000, which was equal to the carrying amount of non-controlling interests acquired on the date of acquisition.

(ii) Changes in ownership interests in subsidiaries without change of control

For the year ended 31 December 2016, the Group acquired additional interests in the subsidiaries for a total consideration of RMB2,926,928,000. The Group recognised a decrease in non-controlling interests of RMB2,790,771,000 and a decrease in equity attributable to the equity holders of the Company of RMB136,157,000. The effect of changes in the ownership interest of the Group on the equity attributable to the equity holders of the Company during the year is summarised as follows:

	The date of acquisition
	RMB'000
Carrying amount of non-controlling interests acquired	2,790,771
Consideration paid to non-controlling interests	(1,881,928)
Consideration payable recorded in 'trade and other payables' (Note 26(b))	(1,045,000)
Excess of consideration paid recognised in equity	(136,157)

For the year ended 31 December 2016, the Group disposed equity interests in Qianhai Shimao Development (Shenzhen) Co., Ltd., Nanchang Shuicheng Investment Co., Ltd., Hangzhou Shimao Ruiying Real Estate Co., Ltd., Xiamen Shimao New Pilot Real Estate Co., Ltd. and Shanghai Qianshe Investment and Management Co., Ltd. for a total consideration of RMB6,970,442,700 to Shanghai Shimao which resulted in a reserve reclassification of RMB252,842,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

41 RELATED PARTY TRANSACTIONS

The Group is controlled by Gemfair Investments Limited (Incorporated in the British Virgin Islands), which owns 57.30% of the Company's shares. The ultimate controlling party of the Group is Hui Wing Mau.

- (a) Other than those disclosed elsewhere in the consolidated financial statements, the Group entered into the following major related party transactions during the year ended 31 December 2016.

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Operating lease rental expense charged by a related company	–	4,533

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Construction material sold to related companies	57,047	10,368

(b) Key management compensation

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Emoluments		
– Salaries and other short-term employee benefits	24,718	19,200
– Retirement scheme contributions	298	295
	25,016	19,495

42 EVENTS AFTER THE REPORTING PERIOD

On 6 February 2017, the Company redeemed all the outstanding senior notes of US\$800,000,000 which interest rate is 6.625%, and would due on year 2020, at a redemption price equal to 103.3125% of the principal amount thereof, being US\$826,500,000 plus accrued and unpaid interest of US\$3,238,800. The total redemption price paid by the Company on the redemption date is US\$829,738,880. Upon completion of the redemption, this senior notes will be cancelled and delisted from the official list of Singapore Exchange Securities Trading Limited.

Pursuant to the facility agreement (the "Facility Agreement") dated 6 January 2017 and entered into between, among others, the Company as borrower, Shanghai Pudong Development Bank Baoshan Branch, Bank of Shanghai Xu Hui Sub-branch and Shanghai Rural Commercial Bank Baoshan Branch as original lenders, Shanghai Pudong Development Bank Baoshan Branch as the lead bank and Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch as agent, a syndicated loan facility in the amount of RMB3,000,000,000 (the "Loan Facility") will be made available to the Company for a term of 36 months from the date of drawdown of the Loan Facility. As at 29 March 2017, RMB2,000,000,000 has been drawdown by the Company.

43 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors on 29 March 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

44 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

Note	Audited 31 December 2016 RMB'000	Audited 31 December 2015 RMB'000
ASSETS		
Non-current assets		
Interests in subsidiaries	24,447,906	23,742,901
Other non-current assets	71,865	–
	24,519,771	23,742,901
Current assets		
Other receivables	1,406	6,694
Derivate financial instruments	90,199	41,782
Dividends receivable from subsidiaries	8,500,000	4,000,000
Cash and cash equivalents	143,660	36,320
	8,735,265	4,084,796
Total assets	33,255,036	27,827,697
EQUITY		
Equity attributable to the equity holders of the Company		
Share capital	348,864	356,275
Reserves		
– Proposed final dividend	a 1,318,310	1,163,728
– Others	a 1,794,846	1,623,703
Total equity	3,462,020	3,143,706
LIABILITIES		
Non-current liabilities		
Borrowings	21,746,426	21,945,630
Current liabilities		
Borrowings	7,025,735	1,988,238
Other payables and accrued expenses	795,560	527,065
Amounts due to subsidiaries	225,295	223,058
	8,046,590	2,738,361
Total liabilities	29,793,016	24,683,991
Total equity and liabilities	33,255,036	27,827,697
Net current assets	688,675	1,346,435
Total assets less current liabilities	25,208,446	25,089,336

The financial statements on pages 82 to 176 were approved by the Board of Directors on 29 March 2017 and were signed on its behalf.

Hui Wing Mau
Director

Hui Sai Tan, Jason
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

44 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)**Balance sheet of the Company (continued)**

Note:

(a) Reserve movement of the Company

	Share premium RMB'000 (Note (ii))	Share-based compensation reserve RMB'000 (Note (iii))	Capital redemption reserve RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000
Balance at 1 January 2015	5,132,793	93,526	4,949	(2,177,954)	3,053,314
Income for the year	–	–	–	2,195,194	2,195,194
Equity-settled share-based payment					
– Value of employee services	–	69,811	–	–	69,811
– Purchase of shares	(40,184)	–	–	–	(40,184)
– Dividend received	9,984	–	–	–	9,984
2014 final dividend	(1,644,540)	–	–	–	(1,644,540)
2015 interim dividend	(856,148)	–	–	–	(856,148)
Balance at 31 December 2015	2,601,905	163,337	4,949	17,240	2,787,431
Representing:					
Proposed final dividend	1,163,728				1,163,728
Others	1,438,177				1,623,703
	2,601,905				2,787,431
Balance at 1 January 2016	2,601,905	163,337	4,949	17,240	2,787,431
Income for the year	–	–	–	3,183,516	3,183,516
Equity-settled share-based payment					
– Value of employee services	–	49,344	–	–	49,344
– Purchase of shares	(37,198)	–	–	–	(37,198)
– Dividend received	7,518	–	–	–	7,518
Buy-back of shares					
– Purchase of shares	(758,374)	–	–	–	(758,374)
– Dividend received	6,455	–	–	–	6,455
– Cancellation of shares	7,411	–	–	–	7,411
2015 final dividend paid	(1,187,203)	–	–	–	(1,187,203)
2016 interim dividend paid	–	–	–	(945,744)	(945,744)
Balance at 31 December 2016	640,514	212,681	4,949	2,255,012	3,113,156
Representing:					
Proposed final dividend				1,318,310	1,318,310
Others				936,702	1,794,846
				2,255,012	3,113,156

Notes:

- (i) Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provision of the Articles of Association of the Company.
- (ii) Share-based compensation reserve represents value of employee services in respect of share options granted under the share option schemes and shares granted under the Share Award Scheme (Note 21).

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