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**China South City Holdings Limited**
**華南城控股有限公司**

*(incorporated in Hong Kong with limited liability)*

**(Stock code: 1668)**

# PROPOSED ISSUANCE OF SENIOR NOTES AND OVERSEAS REGULATORY ANNOUNCEMENT

The Company proposes to conduct an international offering of the Proposed Notes Issue targeted to certain qualified institutional investors in Asia and Europe. In connection with the Proposed Notes Issue, the Company will provide such investors with certain corporate and financial information regarding the Group. For purposes of equal, effective and timely dissemination of information to Shareholders and the investment community, an extract of such information is attached to this announcement and will be available on the Company's website approximately the same time when such information is released to the qualified institutional investors.

**As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not materialize. Investors and shareholders of the Company are urged to exercise caution when dealing in the securities of the Company.**

## INTRODUCTION

The Company proposes to conduct an international offering of the Proposed Notes Issue targeted to certain qualified institutional investors in Asia and Europe. In connection with the Proposed Notes Issue, the Company will provide such investors with certain corporate and financial information regarding the Group. For the purpose of equal, effective and timely dissemination of information to Shareholders and the investment community, an extract of such information is attached to this announcement and will be available on the Company's website approximately the same time when such information is released to the qualified institutional investors.

The materialization and completion of the Proposed Notes Issue are subject to market conditions and investor's interest. The Notes are proposed to be guaranteed by the Subsidiary Guarantors. UBS, BofA Merrill Lynch and Credit Suisse as the joint global coordinators and UBS, BofA Merrill Lynch, Credit Suisse, Citigroup, Deutsche Bank and HSBC as the joint bookrunners and the joint lead managers are managing the Proposed Notes Issue. As at the date of this announcement, the principal amount, the interest rates and the terms and conditions of the Proposed Notes Issue are yet to be determined. Upon the finalization of the terms of the Notes, UBS, BofA Merrill Lynch, Credit Suisse, Citigroup, Deutsche Bank and HSBC and the Company, among others, will enter into the Purchase Agreement and other ancillary documents, pursuant to which, UBS, BofA Merrill Lynch, Credit Suisse, Citigroup, Deutsche Bank and HSBC will be the initial purchasers of the Notes. Further announcement(s) in respect of the Proposed Notes Issue will be made by the Company as and when appropriate.

The Proposed Notes Issue has not been and will not be registered under the Securities Act or any state securities law of the U.S. and may not be offered or sold within the United States unless so registered or pursuant to an applicable exemption from registration and may only be offered or sold outside the United States in reliance on Regulation S under the Securities Act. None of the Notes will be offered to the public in Hong Kong.

## REASONS FOR THE PROPOSED NOTES ISSUE AND THE PROPOSED USE OF PROCEEDS

The Group is a leading developer and operator of large-scale, integrated logistics and trade centers in the PRC, based on GFA, industry coverage and range of ancillary services and facilities offered. Leveraging the Group's experience and brand reputation, the Group currently has eight projects in different stages of development located in regional economic hubs in Shenzhen, Nanning, Nanchang, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing, PRC.

The net proceeds of the Proposed Notes Issue will be used by the Company primarily to refinance existing indebtedness and for general working capital purpose. The Company may adjust its current plans as to the proposed use of proceeds in response to changing market conditions, changes in government policies or other factors, and thus, the Company may reallocate the use of the proceeds for different uses.

**LISTING**

Approval in-principle has been obtained for the listing of the Notes on the SGX-ST. Admission of the Notes to the SGX-ST is not to be taken as an indication of the merits of the Company or the Notes. No listing of the Notes has been or will be sought in Hong Kong.

**GENERAL**

**As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not materialize. Investors and shareholders of the Company are urged to exercise caution when dealing in the securities of the Company.**

**OVERSEAS REGULATORY ANNOUNCEMENT**

This overseas regulatory announcement is issued pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A copy of the announcement will be available on the website of the Singapore Exchange Securities Trading Limited at www.sgx.com.

**DEFINITIONS**

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

| | |
|---|---|
| "BofA Merrill Lynch" | Merrill Lynch Far East Limited |
| "Citigroup" | Citigroup Global Markets Limited |
| "Company" | China South City Holdings Limited, a company incorporated in Hong Kong with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1668) |
| "Credit Suisse" | Credit Suisse (Hong Kong) Limited |
| "Deutsche Bank" | Deutsche Bank AG, Hong Kong Branch |
| "GFA" | Gross floor area, which comprises the above-ground area contained within the external walls of a building |
| "Group" | the Company and its subsidiaries |
| "HK$" | Hong Kong dollar, the lawful currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region of the People's Republic of China |

| | |
|---|---|
| "HSBC" | The Hongkong and Shanghai Banking Corporation Limited |
| "Notes" | the senior notes proposed to be issued by the Company |
| "PRC" | the People's Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region and Taiwan |
| "Proposed Notes Issue" | the proposed issuance of the Notes by the Company |
| "Purchase Agreement" | the agreement proposed to be entered into between, among others, the Company, UBS, BofA Merrill Lynch, Credit Suisse, Citigroup, Deutsche Bank and HSBC in relation to the Proposed Notes Issue |
| "Securities Act" | the United States Securities Act of 1933, as amended from time to time |
| "SGX-ST" | Singapore Exchange Securities Trading Limited |
| "Share(s)" | ordinary share(s) of the Company |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Subsidiary Guarantors" | the subsidiaries of the Company which provide a guarantee for the payment of the Notes provided that those Subsidiary Guarantors will not include any subsidiaries of the Company established under the laws of the PRC |
| "UBS" | UBS AG Hong Kong Branch |
| "United States" | the United States of America |

For and on behalf of the Board
**China South City Holdings Limited**
**Cheng Chung Hing**
*Co-Chairman & Executive Director*

Hong Kong, 6 September 2016

*As at the date of this announcement, the Executive Directors of the Company are Mr. Cheng Chung Hing, Mr. Leung Moon Lam and Mr. Fung Sing Hong Stephen; the Non-Executive Directors of the Company are Dr. Ma Kai Cheung, SBS, BBS, Mr. Sun Kai Lit Cliff, BBS, JP, Dr. Ma Wai Mo, Mr. Cheng Tai Po and Mr. Lin Ching Hua; and the Independent Non-Executive Directors of the Company are Mr. Leung Kwan Yuen Andrew, GBS, SBS, JP, Mr. Li Wai Keung, Mr. Hui Chiu Chung, JP and Mr. Yung Wing Ki Samuel, SBS, MH, JP.*

**Extract of Operating and Financial Data of China South City Holdings Limited**

Sections in the Offering Memorandum to be included:

1. Risk Factors
2. Capitalization and Indebtedness
3. Summary Consolidated Financial Data
4. Management's Discussion and Analysis of Financial Condition and Results of Operations
5. Industry Overview
6. History and Corporate Structure
7. Business
8. Related Party Transactions
9. Description of Other Material Indebtedness

*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, prospects, cash flows, financial condition and results of operations. If any of the events described below occur, our business, prospects, cash flows, financial condition and results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Notes, and you could lose all or part of your investment. For more information concerning the PRC and related regulatory matters discussed below, see "Regulation."*

## Risks Relating to our Business and our Industry

***Our results of operations substantially depend on PRC economic growth and development and our ability to execute our business strategy.***

Our results of operations substantially depend on the successful execution of our business strategy to attract and retain high-quality occupants, achieve market rental rates and improve the surrounding infrastructure. Our success will also depend upon the economic growth and development in the PRC, especially in the Greater Pearl River Delta region, as well as the regions surrounding Nanchang, Nanning, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing, the locations of our properties under development and planned for future developments, and our ability to compete with other similar businesses. We may face challenges in implementing our strategy, and our ability to achieve our goals may be adversely affected by various factors, many of which are beyond our control. If we are not able to execute our business strategy or successfully compete with other similar businesses, our business, prospects, cash flows, financial condition and results of operations will be materially and adversely affected.

***Our revenues and revenue mix vary significantly based upon the completion dates of our projects and prevailing market conditions.***

Our business depends on the success of a small number of large-scale, multi-phase, mixed-use projects developed over the course of several years. Our strategy is to achieve an optimal mix between trade center units for sale and trade center units held as investment properties. We generally sell certain trade center units in the initial stages following completion of a project subject to prevailing market conditions and restrictions. The number of trade centers that we are able to complete during any given period is limited due to the substantial capital requirements for land acquisition and construction, as well as the lengthy development periods required before positive cash flows may be generated.

Our revenues, and our mix of sales revenues versus recurring incomes (which mainly include rental incomes, property management service income, E-commerce income and income from outlet operations and warehouse and logistics services), vary significantly based upon the completion dates of our projects, among other factors. For instance, we recognized sales of approximately 1,617,000 sq.m., 999,900 sq.m., and 599,400 sq.m. of properties for the fiscal years ended March 31, 2014, 2015 and 2016, respectively, resulting in a 34.7% decrease in revenues from sales of properties from HK$12,535.0 million to HK$8,190.8 million from the fiscal year ended March 31, 2014 to the fiscal year ended March 31, 2015 and a further 49.2% decrease to HK$4,164.1 million for the fiscal year ended March 31, 2016, which was primarily due to the slow down in the general PRC economy and the decrease in Contracted Sales and delivery of completed properties. For the fiscal years ended March 31, 2014, 2015 and 2016, sales of properties accounted for 93.1%, 83.9% and 67.9%, respectively, of our total revenues. If the slow down in the general PRC economy and the decrease in Contracted Sales and delivery of completed properties continue, our revenues from sales of properties may continue to decline, which may result in an adverse effect on our existing businesses and business prospects.

The revenues from sales of properties may increase sharply during periods when we complete a significant project or project phase and offer it for sale, whereas revenues from the same may decline during periods when we offer less new saleable GFA. The sale revenues we are able to achieve in a given period vary significantly based upon the GFA and type of properties, the proportion of GFA we allocate to sales versus rental properties, prevailing sales prices, market demand, interest rates, inflation, the availability of attractive mortgage terms to our buyers, the prevailing regulatory environment for property sales, regional economic growth, competition and other factors, which may be beyond our control. Accordingly, our past performance in any given period and in relation to any given project may not be indicative of our future performance. Furthermore, the market prices of trade center units may not be in line with our expectations.

Part of our strategy is to increase our recurring income, as well as recurring income as a proportion of total revenue, as we complete and lease out more properties over time. Recurring incomes are subject to cyclical changes in market demand and economic developments. We may not be able to implement this strategy successfully if we cannot complete the development of adequate GFA of new rental and self-operated properties, achieve adequate rental and operating occupancy rates and achieve adequate recurring incomes. Furthermore, maximizing yields from properties held for investment also depends to a large extent on active ongoing management and maintenance of the properties.

Our recurring incomes attributable to the leasing of trade center units and other properties under operating lease as well as incomes from other operations like outlets, warehouse and logistics services, E-commerce services and property management during the fiscal years ended March 31, 2014, 2015 and 2016 were approximately HK$655.7 million, HK$1,103.6 million and HK$1,420.6 million, respectively, accounting for 4.9%, 11.3% and 23.2% respectively, of our total revenues.

Recurring incomes vary among projects according to maturity of projects, market demand, date of completion and other factors. Occupants generally prefer to operate at a facility with a high occupancy rate, so we offer occupants in newly completed trade center units preferential rental rates or other charges and rent-free periods in order to boost initial occupancy rates. If we fail to achieve a sufficiently high occupancy rate or utilization rate at any of our projects or services provided, we may need to provide additional incentives to attract a core group of clients. Our recurring incomes for future periods may be adversely affected by these and similar incentive plans and may not increase in line with our expectations, or at all.

***We may not be able to replace or renew all of our lease agreements upon their expiration.***

Most of our rental incomes are derived from trade centers in China South City Shenzhen and Shenzhen HOBA Home Furnishing Chain Store Co., Ltd. ("HOBA Furnishing"). The terms of our leases generally range from 12 to 60 months. Since many leases have identical terms and were entered into soon after completion of the relevant project phase, we often must seek to renew or replace a significant portion of our leases at about the same time. When a lease is not renewed, we must sometimes lower our rental rates to attract new occupants.

In exchange for discounts on their purchase price, the buyers of certain trade center units in some of our projects have permitted us to lease these units to third parties while retaining all the rental income from these units. Pursuant to these arrangements, we are able to earn rental income until the expiration of the permitted period, after which we may no longer be entitled to the revenue from such leases.

We cannot assure you that we will be able to renew or replace our existing leases upon expiration or that our occupancy rates and effective rental rates will not decline. Any decline in our occupancy or rental rates could reduce our leasing revenue, which in turn could have a material adverse impact on our business, prospects, cash flows, financial condition and results of operations.

***We incur significant capital expenditures in developing our projects.***

Development of our projects involves significant capital expenditures. For the fiscal years ended March 31, 2014, 2015 and 2016, we incurred capital expenditure of HK$16,199.0 million, HK$18,495.9 million and HK$9,007.4 million, respectively. In the event of a circumstance which adversely affects the operations or business of our projects, or their attractiveness to occupants, we may not have sufficient income to fully mitigate any ensuing loss or recover our capital expenditures. We are highly susceptible to a downturn in the property market of regions in which our projects are located. In addition, any property damage at these projects, resulting from fire or other causes, or a downturn in the finished and unfinished goods or manufacturing industries in the regions where our projects are located, may have a material adverse effect on our business, prospects, cash flows, financial condition and results of operations. Furthermore, we cannot assure you that these projects will continue to attract occupants and customers and generate recurring income and sales revenue at historical rates, or that they will be successful in the future. We cannot assure you that we will be able to successfully diversify our revenue base, obtain land use rights for all of the land necessary to develop new projects or generate revenue and net income from new projects in amounts that will allow us to recover our capital expenditures.

***We may not be able to complete the development of our projects in Shenzhen, Nanning, Nanchang, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing on time or within budget.***

Completing the development of our projects in Shenzhen, Nanning, Nanchang, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing may involve obtaining additional land use rights for large plots of land, many of which have existing structures and residents, from municipal and provincial governments of the PRC. Other properties we may develop in the future may also involve similar circumstances. Acquiring these development rights, converting them into land use rights and committing the financial and managerial resources to the development of land involves significant risks. Before an integrated logistics and trade center development generates any revenue, we must make a variety of material expenditures, which include acquiring the development rights and constructing the integrated logistics and trade center development infrastructure.

It generally takes several years for a planned development to generate revenue, and we cannot assure you that such developments will achieve positive cash flows. Our integrated logistics and trade center development activities may be exposed to the following risks:

- we engage independent contractors to provide various services, including but not limited to construction, piling and foundation, engineering, interior decoration, mechanical and electrical installation and utilities installation. The services rendered by any of these independent contractors may not meet our quality standards and timing requirements, and negligence or poor work quality by contractors may result in defects in our buildings or trade center units, which could in turn cause us to suffer financial losses, harm our reputation or expose us to third-party claims;

- we may incur construction and other development costs for a development project which exceed our original estimates due to increases in material, labor, leasing or other costs, which could make the completion of the project uneconomical because market rents or sales prices may not increase sufficiently to compensate for the increase in construction and other development costs. In addition, in recent years, construction costs in China have been increasing as a result of economic growth and increased activity in the property industry in China, as well as increases in wages for construction workers and the prices of construction materials and building equipment. Although our construction contracts typically provide for fixed or capped payments, in the long run increases in construction costs may be passed on to us by our construction contractors. Because it normally takes several years for us to complete a project development, we expect that we will be affected by increases in the costs of construction materials, other goods and services or labor. Any cost increases may reduce our profits if we are unable to pass these increased costs on to our customers;

- we may delay, or change our plans for, integrated logistics and trade center development opportunities after we begin to explore them and as a result we may lose deposits paid to participate in the land tender process or fail to recover expenses already incurred;

- we may be unable to complete construction of a property on schedule, or on budget, due to a variety of factors including shortages or increased costs of materials, equipment, contractors and skilled labor; adverse weather conditions; natural disasters; unforeseen engineering, design, environmental, structural or geological problems; labor disputes; disputes with contractors and subcontractors; construction accidents; changes in government priorities and policies or in applicable laws or regulations; changes in market conditions; delays in or increased costs of relocation of existing residents or demolition of existing structures; delays in obtaining requisite licenses, permits or approvals from the relevant authorities; and other problems and circumstances resulting in increased debt service expense and construction costs;

- we may be unable to obtain, or face delays in obtaining, required zoning, land use, building, occupancy, and other governmental permits, rights and authorizations, which could result in increased costs and could require us to abandon our activities in part or as a whole with respect to a project;

- we may be involved in legal, governmental or administrative proceedings or disagreements with regulatory bodies arising out of our operations and may face significant liabilities as a result;

- we may lease or sell developed properties at below expected rental rates or sales prices, and we may experience delays in the sale or leasing of developed properties; and

- occupancy rates, rents and sales prices at newly completed properties may fluctuate depending on a number of factors, including market and economic conditions, and may result in our investments being less profitable than we expected or not profitable at all.

The occurrence of any of these circumstances, most of which are beyond our control, could delay the completion or affect the profitability of our properties under development in Shenzhen, Nanning, Nanchang, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing or increase our costs, which could adversely affect our business, prospects, cash flows, financial condition and results of operations. In addition, many of the assumptions on which we have based the timetables for our properties under development and planned for future development are also outside of our control. If the actual economic conditions or other facts turn out to be materially different from these assumptions, our actual development timetable could differ materially from that described in this offering memorandum.

***We may not be able to obtain adequate funding to complete our properties under development in Shenzhen, Nanning, Nanchang, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing.***

We will require substantial capital resources to develop our properties in Shenzhen, Nanning, Nanchang, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing. Each of these projects is a large-scale project consisting of multiple phases that: (1) will take several years to complete; (2) do not require full completion of all phases to be operational; (3) will be completed on a phase-by-phase basis; and (4) can be financed from a variety of funding sources, including project financing, other bank borrowings, offerings of debt and equity securities and cash flows from operations, including from pre-sales and recurring income.

We rely on cash flows from operations, bank borrowings and offerings of debt and equity securities to fund our development requirements. In this regard, our cash flows from operations alone may not be sufficient to fund our future development requirements. Due to the nature of our trade center development business, we may from time to time experience periods of net cash outflows, when imbalances may arise between the timing of cash inflows from rentals and sales of trade center units and our cash outflows relating to the construction of properties and purchases of land use rights.

We may require additional bank borrowings and, if necessary, future offerings of debt and/or equity securities for a significant portion of our liquidity requirements to finance the construction costs of our projects, which are expected to be completed in multiple phases. Our ability to secure sufficient funding for project development depends on a number of factors that are beyond our control, including market conditions in debt and equity markets, investors' perception of our business, lenders' perception of our creditworthiness, the PRC economy and PRC regulations. We cannot assure you that we will be able to obtain additional financing at competitive costs, or at all. In addition, we may not be able to renew our existing loan facilities granted by banks in the PRC on satisfactory terms, or at all. If we are unable to obtain necessary additional financing or renew existing loan facilities, we will not be able to complete our properties under development or planned for future development in Shenzhen, Nanning, Nanchang, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing, and our business development could be severely disrupted.

In addition, the People's Bank of China, or 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. Although the PBOC decreased the reserve requirement ratio four times in 2015 and 2016, there is no assurance that it will continue to decrease or remain at the current level. In case of any increases of the reserve requirement ratio required by the PBOC, it may negatively impact the amount of funds available for corporate lending, including to us, by commercial banks in China. As a result, we cannot assure you that we will be able to obtain sufficient funding to finance intended purchases of land use rights, develop future projects or meet other capital needs as and when required at a commercially reasonable cost, or at all. Failure to obtain adequate funding at a commercially reasonable cost may limit our ability to acquire land, commence new projects or to continue the development of existing projects. Any such failure may also increase our borrowing costs and have a material adverse effect on our business, prospects, cash flows, financial condition and results of operations.

In previous years, the PRC government had introduced a number of measures and regulations to restrict the ability of property developers to raise capital through external financing and other methods. These PRC regulations include, but are not limited to, the following:

- pre-sale proceeds may only be used to fund the property development costs of the relevant projects to which they relate;

- we cannot pre-sell uncompleted units in a project prior to achieving certain development milestones;

- PRC banks are prohibited from extending loans to real estate companies for the purposes of funding the payment of land premium;

- we cannot borrow from a PRC bank for a particular project unless we fund at least 35% of the estimated total capital required for that project from our own capital;

- we cannot borrow from a PRC bank for a particular project unless we first obtain the land use rights certificate, construction land planning permit, construction works planning permit and construction permit for that project;

- PRC banks are restricted from granting loans for the development of luxury residential properties;

- property developers are strictly prohibited from using the proceeds from a loan obtained from a local bank to fund property developments outside the region where that bank is located, subject to limited exceptions;

- PRC banks are restricted from granting revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties;

- PRC banks are prohibited from accepting properties that have been vacant for more than three years as collateral for loans;

- In November 2009, the PRC government raised the minimum down payment of land grant fees to 50% and required the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions; and

- In March 2010, the Ministry of Land and Resources of the PRC, or the MLR, stipulated that the minimum down payment of land grant fees of 50% must be paid within one month after the signing of a land grant contract and the rest of the land grant fees must be fully paid within one year after the signing of a land grant contract.

Because the local authorities in Shenzhen treat our subsidiary, China South International Industrial Materials City (Shenzhen) Co. Ltd. ("China South International"), as an integrated logistics enterprise, we have not been subject to these measures and regulations with respect to China South City Shenzhen. However, if local regulatory authorities were to change their current approach and treat China South International as a property developer, or if higher level or central government regulatory authorities were to override the decision of the local regulatory authorities, China South International would be subject to these measures and regulations with respect to China South City Shenzhen. We have not received any formal assurance or comfort from any authorities that such a change will not occur. Moreover, these measures may apply to our properties under development or future projects. For further discussion on the restrictions imposed on property developers, see "Regulation — Regulations on Foreign-Invested Real Estate Enterprises" and "Regulation — Regulations on Real Estate Financing." Any application of these measures to our business could have a material adverse effect on our business, prospects, cash flows, financial condition and results of operations.

***If we are unable to obtain suitable sites or the land use rights for our properties under development and planned for future development, we will not be able to develop these projects.***

We signed master agreements with the local governments where our projects operate, namely Shenzhen, Nanchang, Nanning, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing, and certain supplementary agreements thereto. Pursuant to these master agreements and the corresponding supplementary agreements, the municipal governments have identified land which is suitable for our development strategy in these locations. However, the signing of the master agreements and the corresponding supplementary agreements thereto does not guarantee that we will obtain the land identified therein, which may only be transferred by public tender, auction or listing for sale. Thus, the signing of such agreements does not guarantee that we will be able to obtain land for use in connection with our planned projects. Although as of March 31, 2016 we have obtained the land with attributable GFA of approximately 4.67 million sq.m., or 63.9% of the planned GFA, attributable GFA of approximately 2.48 million sq.m., or 50.8% of the planned GFA, attributable GFA of approximately 4.16 million sq.m., or 23.7% of the planned GFA, attributable GFA of approximately 4.75 million sq.m., or 39.6% of the planned GFA, attributable GFA of approximately 5.17 million sq.m., or 43.1% of the planned GFA, attributable GFA of approximately 5.20 million sq.m., or 43.3% of the planned GFA and attributable GFA of approximately 5.61 million sq.m., or 41.5% of the planned GFA for the identified site area of the Nanchang, Nanning, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing projects, respectively, we cannot assure you that we will be successful in bidding for the remaining parcels of land for these projects or that we will be able to obtain the land use rights at our desired price. If we are not successful in bidding for the remaining parcels of land for our properties under development in Nanchang, Nanning, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing, we will not be able to develop these projects as planned.

Our ability to identify and obtain suitable sites for future development is critical to our strategy but is subject to regulatory constraints and other factors beyond our control. We cannot assure you that we will be able to identify and acquire suitable sites within our budget, or at all. The PRC government controls substantially all new land supply in the PRC and regulates land sales in the secondary market. Our ability to acquire land use rights and the acquisition costs of such land use rights may be adversely affected by the PRC government's policies towards land supply, development and pricing. The PRC central and local governments regulate the means by which property developers obtain land sites for property developments. In particular, under PRC government regulations, state-owned land use rights for residential and commercial property developments may only be granted by public tender, auction or listing-for-sale. The regulatory climate may constrain our ability to pursue development opportunities in the future and may contribute to an increase in land acquisition costs. In this regard, in the past our land acquisition costs reflected the relatively lower amounts applicable to the treatment of China South International as an integrated logistics enterprise by local authorities in Shenzhen. As we increase the proportion of our properties that will be residential properties, we will be required to pay the higher costs applicable to residential properties. Furthermore, the PRC government requires property developers to pay the full land-grant fees for the entire parcel under the land grant contract before they can receive a land use rights certificate and commence development on the land. The implementation of the regulation requires property developers to maintain a higher level of working capital. This may have a material adverse effect on our business, cash flows, financial condition and results of operations.

***Our flexibility to sell properties is limited by certain project and land related contracts and documents.***

Pursuant to certain project and land related contracts and documents, some of the land we have acquired or may acquire in the future has or may have sales restrictions on properties built on it. For example, the saleable area of trade centers of China South City Shenzhen is limited to 30% of the total buildable GFA of properties built on the relevant parcels of land. The saleable area of trade centers and logistics facilities built on certain parcels of land acquired by China South City Nanchang and China South City Nanning in 2010 are limited to 60% of the relevant total buildable GFA. The saleable area of trade centers built by China South City Hefei and China South City Chongqing are limited to 50% of their relevant total buildable GFA. The saleable area of trade centers of Phase One and future phases of China South City Zhengzhou are limited to 60% and 50% respectively of its relevant total buildable GFA. According to our business plan, we intend to hold not less than 50% of trade centers and commercial facilities for leasing and self-use, therefore we do not believe the related sales restrictions will have a significant impact on our business operations. Nevertheless, our flexibility to sell the properties in the future to generate additional revenue or to take advantage of rising sales prices of those properties is limited, which will in turn have an adverse effect on our business, prospects, cash flows, financial condition and results of operation. Furthermore, we cannot assure you that land we acquire in the future will not be subject to similar restrictions on sales.

***The treatment of China South International as a foreign-invested real estate enterprise may subject us to restrictions imposed on such enterprises under relevant PRC laws and regulations.***

China South International is treated as an integrated logistics enterprise by local authorities in Shenzhen and, as such, it is not subject to rules and regulations in the PRC applicable to foreign-invested real estate enterprises. The local governmental authorities have the discretion as to whether to treat China South International as a foreign-invested real estate enterprise, as opposed to an integrated logistics enterprise, we would become subject to these rules and regulations. Our project company in Harbin is a domestic real estate developer and our project companies in Nanning, Zhengzhou, Nanchang, Hefei Chongqing and Xi'an have also obtained real estate developer certificates. If the regulatory authorities were to treat any of our project companies as a foreign-invested real estate enterprise, it would need to be recorded as such with the local commerce authorities and be subject to regulations and restrictions applicable to foreign-invested real estate enterprises, including, but not limited to, restrictions on our ability to obtain loans within and outside of the PRC, as well as restrictions on the conversion and sale of foreign exchange into the capital account.

Because China South International is not treated as a foreign-invested real estate enterprise, we are able to downstream funds to China South International in the form of shareholders' loans rather than capital contributions and China South International is not subject to certain approval and registered capital requirements applicable to foreign-invested real estate enterprises. If there is a change of policy resulting in our treatment as a foreign-invested real estate enterprise, it will become subject to registered capital ratio restrictions requiring us to maintain registered capital levels at 50% or more of our total investment. In addition, according to the regulation issued by the General Affairs Department of the State Administration of Foreign Exchange ("SAFE"), SAFE will no longer process foreign exchange or debt registrations or applications for the sale and purchase of foreign exchange submitted by real estate enterprises with foreign investment that fails to meet certain requirements. This regulation effectively prohibits foreign-invested real estate companies from raising funds through an offshore parent for the purpose of injecting such funds into the companies by way of shareholder loans but does not restrict property developers from receiving foreign capital through approved transactions that increase the registered capital of existing foreign-invested companies or through the establishment of new foreign-invested real estate companies. As such, we may be subject to this notice if China South International is treated as a foreign-invested real estate enterprise.

Any capital contributions made to our operating subsidiaries in China are also subject to the foreign-invested regulations and foreign exchange regulations in the PRC. Unless otherwise permitted by PRC laws or regulations, Renminbi capital converted from foreign exchange capital contribution can only be applied to the activities within the approved business scope of such foreign-invested enterprise and cannot be used for domestic equity investment or acquisition. We may encounter difficulties in increasing capital contributions to our project companies and subsequently converting such capital contributions into Renminbi for equity investment or acquisition in China. However, we cannot assure you that we will be able to obtain all requisite approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make capital contributions to our project companies as their general working capital or to fund their operations may be negatively affected, which could materially and adversely affect our business, prospects, cash flows, financial condition and results of operations.

***The cyclical nature of the real estate and logistics industries could adversely affect our results of operations.***

Our results of operations are and will continue to be affected by the cyclical nature of the real estate industry in the PRC. Property values and rents are affected by, among other factors, supply and demand of comparable properties, interest rates, inflation, the rate of economic growth, tax laws and political and economic developments in the PRC. We cannot assure you that property values and rents will not decline. In addition, additional trade center and logistics properties are scheduled for completion over the next few years in China. Increased competition brought by this additional supply could adversely affect trade center rents and occupancy rates as well as sales prices for new trade center units. Our trade centers depend upon the growing demand for such developments in China. A downturn in the PRC economy could materially and adversely affect such demand. For further information on how recent market developments have affected the real estate and logistics industries, see “Industry Overview — Real Estate Market in the PRC.”

***The illiquid nature of, and the lack of alternative uses for, investment properties could limit our ability to respond to adverse changes in the performance of our properties.***

Investment properties in general are relatively illiquid compared to other types of investments, such as securities. As such, 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 many factors that are beyond our control, including general economic conditions, the availability of mortgage financing and interest rates. We cannot predict whether we will be able to sell any of our investment properties at 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.

In addition, investment properties may not be readily convertible for alternative uses without substantial capital expenditure if the original function of such investment property became unprofitable due to competition, age, decreased demand, increased supply or other factors. Similarly, substantial capital expenditure may be required to correct defects or to make improvements before an investment property can be sold. These factors and any others that would impede our ability to respond to adverse changes in the performance of our investment properties may materially and adversely affect our business, prospects, cash flows, financial condition and results of operations.

***Our results of operations fluctuate from period to period due to the fair value of our investment properties.***

Our results of operations fluctuate due to changes in the fair value of our trade center units and other facilities retained for rental income and capital appreciation. Fair value gains on our investment properties include gains recognized upon project completion as applicable properties under development and completed properties for sale on our statement of financial position are transferred to investment properties when there is a change in use with sufficient evidence. We reassess the fair value of our investment properties every year. Property valuation typically requires the use of certain bases and assumptions with respect to a variety of factors, including supply and demand of comparable properties, the rate of economic growth in the location of the property, interest rates, inflation and political and economic developments in the PRC. For the fiscal years ended March 31, 2014, 2015 and 2016, we had fair value gains on our investment properties of HK$1,266.3 million, HK$2,398.5 million and HK$3,232.7 million, respectively, representing 34.3%, 64.6% and 91.5%, respectively, of the profit for the respective periods after taking into account deferred income tax on such gains. These fair value gains reflect unrealized capital gains on our investment properties at the relevant reporting dates, as well as the reclassification of properties under development to investment properties. These fair value gains were not profit generated from day-to-day rental income from our investment properties, were largely dependent on prevailing property market conditions, and did not generate cash inflow which could contribute to the payments of interest, principal or other amounts under the Notes unless such investment properties can be disposed of and the capital gains are realized. Excluding the effect of gains on changes in fair value of investment properties and the deferred tax expenses in connection with the investment properties, we would have had a profit of HK$2,806.8 million, HK$1,993.1 million and HK$1,187.9 million for fiscal years ended March 31, 2014, 2015 and 2016, respectively. During these same periods, we had a net cash inflow from operating activities of HK$2,702.9 million, HK$1,386.8 million and HK$1,187.3 million, respectively. The change in fair value of our investment properties has been, and will continue to be, significantly affected by the prevailing property market prices and is subject to market fluctuations. We cannot assure you that we will continue to record similar levels of revaluation gains or that the fair value of our investment properties will not decrease in the future, in which case, we may incur a fair value loss. In addition, we cannot assure you that we will be able to realize all or any of these fair value gains. In the event there is a material negative change in the value of our investment properties in the future, our results of operations and financial condition will be materially and adversely affected.

***We are exposed to contractual and legal risks relating to pre-sales.***

We make certain undertakings in our pre-sale contracts. Our pre-sale contracts and the PRC laws and regulations provide for remedies for breach of these undertakings. For example, if we pre-sell units in a property development and we fail to complete that development, we will be liable to the purchasers for their losses. If we fail to complete a pre-sold property on time, we may be liable to the relevant purchasers for late delivery under the relevant pre-sale contracts or pursuant to relevant PRC laws and regulations. If delays extend beyond a specified period, the purchasers may terminate their pre-sale contracts and claim for damages. A purchaser may also terminate a contract with us if the GFA of the relevant unit, as set out in the individual property ownership certificate, deviates by more than 3% from the GFA of that unit set out in his or her contract. If a substantial number of purchasers claim against us for breach of contract or terminate their pre-sale contracts with us, our business, prospects, cash flows, financial condition and results of operations may be materially and adversely affected.

***The customers of our trade centers and residential properties may not be able to obtain mortgages on favorable terms, or at all, which could reduce our sales.***

Many of the purchasers of our trade centers and residential properties 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 trade centers and residential properties. In addition, the PRC government and commercial banks may also increase down payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unattractive or unavailable to potential property purchasers. In this regard, in recent years the PRC government has issued laws and regulations to raise minimum down payments for property purchases, and impose other requirements. In the event that mortgages become more difficult to obtain or that the costs of such financing increases, many of our prospective customers who rely on mortgages may not be able to purchase our properties. In addition, in line with industry practice, we provide guarantees to banks for mortgage loans that they offer to purchasers of our properties. For these mortgage loans, our guarantee terminates when purchasers obtain the building ownership certificate and pledge it to the relevant banks. If there are changes in laws, regulations, policies or practices that would prohibit property developers from providing such guarantees and these banks do not accept alternative guarantees from third parties, if available, it may become more difficult for property purchasers to obtain mortgages from banks in connection with pre-sales. Such difficulties may inhibit pre-sales, which could materially and adversely affect our business, prospects, cash flows, financial condition and results of operations.

***We may become liable if our customers default on mortgage or bank loans we have guaranteed.***

We guarantee mortgage and bank loans entered into by certain of our purchasers, including purchasers of trade center units and residential properties and purchasers under finance leases of residential and supporting commercial units. For these mortgage loans, our guarantee terminates when purchasers obtain the building ownership certificate and pledge it to the relevant banks. We do not conduct independent credit checks on our customers. Although the mortgages we guarantee typically finance no more than 50% to 70% of the purchase price of our trade center units and residential properties or 50% of the finance lease price of our residential and supporting commercial units, if a purchaser defaults on its mortgage or bank loan, we may be required to repay the outstanding amount together with accrued interest thereon and any penalty owed by the defaulting purchaser to the relevant bank. In the event of a purchaser default, we are entitled to take over the legal title and usage rights of the related properties. As of March 31, 2016, our outstanding guarantees in respect of mortgage loans amounted to approximately HK$5,805.4 million. If we are called upon to honor a material portion of our guarantees, our business, prospects, cash flows, financial condition and results of operations may be materially and adversely affected.

In addition, we make entrusted loans in connection with the sales and finance leases of certain units by advancing an amount, typically no more than one-half of the purchase price or the finance lease price, to the purchaser's lending bank. These advances appear as loan receivables and finance lease receivables on our consolidated balance sheet. In the event of a purchaser default, we write off the receivable and are entitled to take over the legal title and usage rights of the related properties.

***Changes in laws and regulations in relation to pre-sale of properties may adversely affect our business, prospects, cash flows, financial condition and results of operations.***

Proceeds from the pre-sales of our properties may be an important source of funds for our property developments and may have a significant impact on our cash flows and liquidity position. In August 2005, the PBOC proposed in a report that the practice of pre-selling uncompleted properties be discontinued, on the grounds that pre-sales create significant market risks and generate transactional irregularities. Since the PBOC proposal, various cities in China, including Shenzhen, have issued supervision measures regarding the pre-sale payment requirements and restrictions. However, there are no central level regulations adopted by PRC government authorities. We cannot assure you that the PRC government will not ban or impose material limitations on presales of uncompleted properties in the future. Future implementation of any restrictions on our ability to pre-sell our properties, including any requirements to increase the amount of up-front expenditure we must incur prior to obtaining the pre-sale permit, would extend the time required for recovery of our capital outlay and would force us to seek alternative means to finance a portion of our property developments, which could have a material adverse effect on our business, prospects, cash flows, financial condition and results of operations.

***Our operations are subject to extensive governmental regulation, and we are susceptible to changes in policies related to the real estate and logistics markets in China.***

In order to develop and operate a trade center or residential development, we must obtain various permits, licenses, certificates and other approvals from the relevant administrative authorities at various stages of our trade center or residential development, including land use rights documents, planning permits, construction 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 be able to fulfill the pre-conditions necessary to obtain required governmental approvals, or that we will be able to adapt to new laws, regulations or policies that may come into effect from time to time with respect to the real estate or logistics industries in general or the particular processes with respect to the grant of approvals in China. There may be delays on the part of relevant administrative bodies in reviewing our applications and granting approvals. We cannot assure you that our projects will not be subject to delays or fines in relation to the development of such land parcels in the future. In addition, property developers are typically required to deliver to purchasers the relevant individual property ownership certificates within one to two years after delivery of the property or within a time frame set out in the relevant sale and purchase agreement. Under current regulations, property developers are required to submit requisite governmental approvals in connection with their property developments, including various approval certificates and a property survey report, to the local bureau of land resources and housing administration after the receipt of the certificate of completion for the relevant properties and to apply for the general property ownership certificate in respect of these properties. Property developers are then required to submit, within regulated periods after delivery of the properties, various documents 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 and/or individual property ownership certificates. We may also be subject to periodic delays in our trade center and residential development projects due to building moratoria in the areas in which we operate or plan to operate. If we are unable to obtain, or experience material delays in obtaining, the requisite governmental approvals, or if a building moratorium is implemented at one or more of our project sites, the development and sale of our projects could be substantially disrupted, which would have a material adverse effect on our business, prospects, cash flows, financial condition and results of operations.

We may also be liable for monetary penalties to purchasers for late delivery of the individual property ownership certificates due to delays in the administrative approval processes, or for other reasons beyond our control. Furthermore, we cannot assure you that the implementation of laws and regulations by relevant authorities, or the interpretation or enforcement of such laws and regulations, will not cause us to incur additional costs. For example, the majority of our land used for China South City Shenzhen is designated by the local government in Shenzhen for integrated logistics uses. Under applicable PRC laws and regulations, however, "integrated logistics" is not a designated category for land use. Therefore, the land use rights certificates and building ownership certificates for China South City Shenzhen's trade centers (which are combined into one certificate) indicate that our land and buildings are for "warehousing (integrated logistics)" purposes. Relevant government agencies of the Shenzhen Municipal Government have concluded that our use of land primarily for the wholesale business is consistent with regulations of the Shenzhen government governing the "integrated logistics" industry. Because there are not national laws, regulations or policies governing the "integrated logistics" industry in the PRC, we rely on regulations and policies in Shenzhen for the legality of our current land use. However, we cannot assure you that PRC governmental authorities will not issue regulations on the integrated logistics industry that restrict our current and planned activities or that we will not be required to change our land uses.

The PRC government exerts considerable direct and indirect influence on the growth and development of the PRC property market, particularly the supply of land, through industry policies and other economic measures such as adjustments in interest rates, controlling the supply of credit by adjusting the reserve requirement ratios of the banks and implementing lending restrictions, increasing tax and duties on property transfers, imposing property transfer restrictions, imposing foreign investment and currency exchange restrictions. We cannot assure you that the PRC government will not adopt more stringent industry policies, regulations and measures in the future. 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, prospects, cash flows and results of operations may be materially and adversely affected.

***We face competition from other trade centers and other property developers.***

We face competition from other trade centers in China, particularly in Guangdong Province with regard to China South City Shenzhen. The greatest concentration of similar trade centers in China is in the Greater Pearl River Delta, the Yangtze River Delta and the Bohai-Ring region near Beijing. The finished and unfinished goods featured at these competing trade centers include textile and clothing, leather and accessories, electronic accessories, printing and finished goods, paper and packaging and metals, chemicals and plastics that compete with the finished and unfinished goods featured at our projects. In addition, there may be an increase in supply of trade centers in the Greater Pearl River Delta and elsewhere in China, such as Nanchang, Nanning, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing in the future. Each of Jiangxi Province, Guangxi Zhuang Autonomous Region, Shaanxi Province, Heilongjiang Province, Henan Province, Anhui Province and Chongqing Municipality also has numerous trade centers varying in size and type of industries represented. The competition may limit our ability to attract and retain occupants and buyers and may reduce the rents or prices we are able to charge. We cannot assure you that we will compete effectively against other trade center operators.

In addition, we expect to increase the proportion of residential properties in our properties under development or planned for future development in Nanchang, Nanning, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing. As a result, we will face increasing competition in the future from residential and other property developers. We expect competition among property developers for land reserves that are suitable for property development to remain intense. In addition, PRC governmental land supply policies and implementation measures may further intensify competition for land in China among property developers. The increasing number of property developers and the intensity of competition among property developers for land, financing, raw materials, skilled management and labor resources may result in increased costs for land acquisition, an over-supply of properties for sale, a decrease in property prices and a slowdown in the rate at which new property developments are approved by governmental authorities. Our inability to compete effectively could materially and adversely affect our business, prospects, cash flows, financial condition and results of operations.

***Our business may be sensitive to global economic conditions.***

The global financial markets are highly turbulent recently. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies, including China's. There have also been concerns over unrest in the Middle East and Africa, which have resulted in significant market volatility. In addition, on June 23, 2016, the United Kingdom voted to exit the European Union. This has caused significant volatility in the global financial markets, which would negatively affect financial conditions and global economy. A decline in the economic prospects of our current and potential clients and occupants and the economy in general could reduce the demand for our trade centers and residential properties and the needs for our services to the occupants. Therefore, any prolonged slowdown in the global economy may materially and adversely affect our financial condition and results of operations. In addition, the weak economy could weaken investor confidence, which constitutes the basis of the credit markets. Renewed financial turmoil affecting the financial markets, banking systems and currency exchange rates may significantly restrict the ability of our clients to obtain mortgages to finance the purchase of our trade centers and residential properties, which could materially and adversely affect the demand of our properties, as well as our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all, which could also materially and adversely affect our business, results of operations and prospects.

***We may not be able to obtain qualification certificates, or extend or renew qualification certificates, for real estate development.***

Because our subsidiary, China South International, is not treated as a domestic real estate developer, it does not require a long-term (two or more years) qualification certificate, which is normally granted to domestic real estate developers. The Shenzhen Municipal Bureau of Land Resources and Housing Management has, in the past, granted a short-term qualification certificate to China South

International confirming that China South International is allowed to undertake the development of properties necessary for its integrated logistics and trade center operations, provided that such property development operations occur within the site area of China South City Shenzhen. In August 2016, China South International obtained a new short-term qualification certificate which allows China South International to undertake development of properties within the whole area of Shenzhen.

Although we have successfully renewed this qualification certificate in the past, the final decision with respect to future applications is at the discretion of the local authorities. As a result, we cannot assure you that China South International will be able to renew the qualification certificate in a timely manner, or at all. If our project companies are unable to obtain or renew qualification certificates, they may not be permitted by the PRC government to continue to engage in property development activities associated with the development of their integrated logistics and trade center businesses, which would materially and adversely affect our business, prospects, cash flows, results of operations and financial condition.

***We face risks associated with the use of debt to fund developments and working capital, including refinancing risk and foreclosure risk.***

We rely on debt financing, including bank and other borrowings secured by buildings, investment properties, properties under development and rental properties to finance our development activities and for general working capital purposes. We are subject to the risks normally associated with debt financing. If principal payments due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new equity or debt capital, our cash flows may not be sufficient to repay all maturing debt. If prevailing interest rates or other factors at the time of any refinancing result in higher interest rates, increased interest expense would adversely affect our ability to service our debt and our financial condition and results of operations. If we are unable to obtain or refinance our debt, our business, prospects, cash flows, financial condition and results of operations could be adversely affected.

***Our business may be adversely affected by increases in interest rates and reserve requirement ratios.***

We rely on borrowings, in the form of bank loans and bond and note offerings, to finance a substantial part of our project developments. Many of our customers also finance their purchases of trade center units and residential properties through loans. Increases in bank reserve requirement ratios may reduce the amount of funds available to commercial banks in the PRC to lend to businesses, including us, or to consumers to finance property purchases. Increases in interest rates increase our finance costs. Moreover, interest rate volatility can make it difficult for us to make plans and implement our strategies and can deter potential trade center unit buyers. Any of these factors may have a material and adverse effect on our business, prospects, cash flows, financial condition and results of operations.

***The increasing popularity of E-commerce may have a competitive impact on our occupants.***

As E-commerce has become increasingly popular in recent years, many retailers and wholesalers have started to launch online shopping and online-to-offline ("O2O") functions. Our occupants may face increasing competition from operators of E-commerce businesses as well as other online retail businesses. Manufacturers and distributors may choose to focus increasingly on Internet sales instead of traditional distribution channels. Competition may also intensify if the competitors of our occupants set up their own Internet platforms and begin to sell products via the Internet. As a result, traffic to our projects and our occupancy rates may be affected. If our occupants are unable to compete effectively against operators of these types of retail channels, our business, financial condition, results of operation and prospects may be materially and adversely affected.

***Historical increases in our other income and gain attributable to government grants may not be substantial.***

For the fiscal years ended March 31, 2014, 2015 and 2016, we had other income and gain attributable to government grants in the aggregate amount of approximately HK$10.3 million, HK$56.5

million and HK$1,001.1 million, respectively, which were provided by local government authorities to foster and support the development of our projects. Our other income and gains increased by 219.1% to approximately HK$1,066.2 million for the fiscal year ended March 31, 2016, and such increase was mainly attributable to the government grants. We cannot assure you that the relevant local government authorities will continue to give us government grants in connection with the development of our projects. If such government grants are withdrawn or no longer given, our income may decrease and our net profit may be adversely affected.

***Our profit margin varies with each property development and changes in product mix, and we may not be able to sustain our existing profit margin.***

Factors that may affect our gross profit margin, or gross profit as a percentage of total revenue, include: (i) product mix, (ii) selling price, and (iii) cost of development. The prices and gross profit margins of our products vary by location, classification and the end use of certain facilities on the properties that we develop to sell or rent. Our trade centers usually afford us higher profit margins than residential and commercial facilities because they typically have higher sales prices per sq.m. Our gross profit margin decreased from 53.0% for the fiscal year ended March 31, 2015 to 48.2% for the fiscal year ended March 31, 2016, due to the change in our product mix whereby the sale of residential properties accounted for a higher percentage of our total sales than in previous years.

In addition, properties in larger-scale projects will typically command a higher selling price as the overall development approaches completion due to the attractiveness of a more established development, thereby increasing our sales profit margin during the relevant period. Our product mix varies from period to period due to a number of factors, including project locations, land cost, market conditions and our development planning. While trade centers remain our primary focus, we expect our other projects will include more residential properties. Therefore, we cannot assure you that we can always maintain or increase our gross profit margin. If we are unable to maintain our gross profit margin, our profitability may be materially and adversely affected.

***Our founding shareholders have substantial influence over us and their interests may not be aligned with the interests of our creditors, including the holders of the Notes.***

Our founding shareholders have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. The interests of our founding shareholders may not be consistent with our interests or those of our creditors, including the holders of the Notes, and our founding shareholders may cause us to enter into transactions or take, or fail to take, other actions or make decisions that conflict with the best interests of our creditors, including holders of the Notes.

***We depend on our senior management and other important staff members, as well as on our ability to attract and retain qualified management personnel.***

We depend on the efforts and skill of our senior management and other important staff members. For a description of our senior management and other important staff members, see "Management." As a result, our future success depends to a significant extent on the continuing service and coordination of these individuals, who are not obligated to remain employed with us.

Our success also depends on our ability to identify, hire, train and retain suitably skilled and qualified employees with requisite industry expertise. The loss of any member of our senior management team or our other key employees could have a material adverse effect on our business if we are unable to find suitable replacements in a timely manner. Competition for such personnel is intense, and any failure to recruit and retain the necessary personnel or the loss of a significant number of employees at any time could harm our business and prospects.

***We may suffer losses caused by natural disasters, acts of war or terrorist attacks, and these losses may not be fully covered by insurance.***

Our business may be adversely affected due to the occurrence of typhoons, severe storms, earthquakes, floods, wildfires or other natural disasters or similar events in the areas where we develop and operate our trade centers. Although we carry insurance on our properties with respect to specified catastrophic events of types and in amounts and with deductibles that we believe are in line with coverage customarily obtained by owners of similar properties, we cannot guarantee you that our insurance coverage is sufficient to cover potential losses, and there are other types of losses, such as from war, nuclear contamination, tsunami, pollution and acts of terrorism, for which we cannot obtain insurance at a reasonable cost or at all. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital invested in a property, as well as the anticipated future revenues from the property. Nevertheless, we would remain obligated for any bank borrowings or other financial obligations related to the property. It is also possible that third-party insurance carriers will not be able to maintain reinsurance sufficient to cover any losses that may be incurred. Any material uninsured loss could materially and adversely affect our business, prospects, cash flows, financial condition and results of operations.

In addition, we usually have to renew our insurance policies every year and negotiate acceptable terms for coverage, exposing us to the volatility of the insurance markets, including the possibility of rate increases. We regularly monitor the state of the insurance market, but we cannot anticipate what coverage will be available on commercially reasonable terms in future policy years. Any material increase in insurance premiums or decrease in available coverage in the future could adversely affect our business, prospects, cash flows, financial condition and results of operations.

***Potential liability for environmental problems could result in substantial costs.***

We are subject to a variety of environmental laws and regulations during the construction of our development projects. 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 adjoining properties. Environmental laws and conditions may result in project delays, may cause us to incur substantial compliance and other costs and can prohibit or severely restrict project development activity in environmentally sensitive regions or areas. In addition, we cannot predict the impact that unforeseeable environmental contingencies or new or changed laws or regulations may have on us or our trade center projects.

As required by PRC law, independent environmental consultants have conducted environmental impact assessments at all of our construction projects. Although the environmental investigations conducted to date have not revealed any material environmental liability, it is possible that these investigations did not reveal all environmental liabilities or their extent, and there may be material environmental liabilities of which we are unaware. Upon completion of each project, the relevant environmental authorities will inspect the site to ensure compliance with all applicable environmental standards and prepare a report to confirm such compliance. In the past, we experienced delays in completing environmental inspections for our hotel and restaurant at China South City Shenzhen. For further information, see "Business — Environmental Matters." In order to comply with applicable environmental laws, rules and regulations, we have adopted certain measures to improve our internal control procedures. However, we cannot assure you that such internal control procedures will be effective in preventing noncompliance. If any portion of our projects is found to be non-compliant with relevant environmental standards or if we are unable to obtain necessary licenses for releasing contaminants, we may be subject to suspension of a portion of our operations as well as fines and penalties.

***Any failure to protect our brand and trademarks could have a negative impact on our business.***

We have registered the trademark 華南城, "华南城" (China South City) and its logo with the Trade Marks Registry in Hong Kong and the PRC Trademark Office under various categories relating to metals, textiles, machines, electronics and many other categories. Any unauthorized use of our brands, trademarks, trade names and other intellectual property rights could harm our business. We cannot assure you that our trade names or trademarks will not be subject to infringement in the future. Any unauthorized or inappropriate use of our trade names or trademarks could harm our market image and reputation. If we are unable to adequately protect our brand, trademarks, trade names and other intellectual property rights, we may lose these rights and our business, prospects, cash flows, financial condition and results of operations may be materially and adversely affected.

***The discovery of cultural relics at a construction site could result in the delay or abandonment of a property development project.***

Xi'an and Zhengzhou were ancient, political, economic and cultural centers in China, and Xi'an and Zhengzhou are home to a large quantity of valuable cultural relics and historic sites. Under PRC law, if any cultural relics are discovered beneath our development sites during our construction process, such discovery must be immediately reported to the local department of cultural relics administration and construction must be immediately suspended or partly suspended for archaeological surveying. If an underground discovery is classified as "highly valuable" by archaeologists and a parcel of land is considered to be of public interest by reason of its historical or archaeological significance, the parcel of land has to be returned to the government and the entire project has to be relocated. Although the government is required to compensate a property developer for a parcel of land returned to it for archaeological purposes, we cannot assure you that such compensation will be sufficient to cover the full amount of the land grant fees paid, any other expenses incurred by the developer in connection with the relevant site or consequential damages. If any historic relics are discovered under any of the construction sites in the future at the Xi'an project or Zhengzhou project, the completion of the projects may be delayed or we may even be required to return the relevant parcels of land to the government, which may materially and adversely affect our business, prospects, cash flows, financial condition and results of operations.

***Sales of our properties are subject to land appreciation tax and income tax.***

Our sales of trade center units and residential properties are subject to land appreciation tax in the PRC. Land appreciation tax is payable on the gain, representing the balance of the proceeds received on such sale, after deducting various prescribed items, including sums paid for acquisition of land use rights, the direct costs and expenses of the development of the land and construction of buildings and supplementary facilities or the appraised price of any previous buildings and structures existing on the land and taxes related to the assignment of the real property. Under applicable PRC laws and regulations, land appreciation tax is chargeable on the gain at progressive rates ranging from 30% to 60%. Property developers enjoy a deduction which is equal to 20% of the sums paid for acquisition of land use rights and the direct costs of land development and construction of new buildings and supplementary facilities. On May 25, 2010, Notice of the State Administration of Taxation on Strengthening the Collection of Land Appreciation Tax (關於加強土地增值稅征管工作的通知) was issued by the State Administration of Taxation. The notice requires that, except for affordable residential housing, the land appreciation prepayment tax rate in the eastern provinces shall not be lower than 2%, while such prepayment tax rate shall not be lower than 1.5% in central and northeast provinces and 1% in western provinces.

The Shenzhen municipal tax authority started to impose the land appreciation tax in November 2005. The land appreciation prepayment tax rate in Shenzhen has been adjusted several times by the Shenzhen municipal tax authority. On August 1, 2010, according to the most recent adjustment, the land appreciation prepayment tax rates in Shenzhen have been raised to 2%, 4% and 3% for each of "ordinary standard housing facilities," "villas" and "other types of property," respectively. For the fiscal years ended March 31, 2014 and 2015, we made provisions for land appreciation tax in the amount of HK$1,270.3 million and HK$1,213.7 million, respectively. For the fiscal year ended March 31, 2016, we had a reversal of provision of HK$23.9 million. Likewise, we are required under local regulations to pay provisional land appreciation tax in other regions or cities when we start to pre-sell or sell our property developments in these regions or cities. Generally, the provisional land appreciation tax rates in these cities range from 1.0% to 5.0% of the pre-sale proceeds, depending on the type and location of the pre-sold properties. Our cash flows and financial condition will be affected if the PRC tax authorities proceed to collect the land appreciation tax for which we have made provisions. In addition, provisioning for land appreciation tax requires our management to use a significant amount of judgment with respect to the appreciation of land value and the allowability of deductible items for income tax purposes. If the land appreciation tax provisions we have made are substantially lower than the actual land appreciation tax amounts assessed by the tax authorities, our results of operations, financial condition and cash flows will be materially and adversely affected.

***Any occurrence or recurrence of severe acute respiratory syndrome, or SARS, or outbreak of any other epidemics could adversely affect our business, prospects, cash flows, financial condition and results of operations.***

In 2003, there was an outbreak of SARS in Hong Kong, China, other Asian countries and Canada. The SARS outbreak had a significant adverse impact on the economies of many of the countries affected. There have been reports regarding the spread of the H5N1 virus, H1N1 influenza, H7N9 influenza and Middle East Respiratory Syndrome. The outbreak of severe contagious diseases could result in widespread public health crises that could have a material adverse effect on the PRC economy and its property market generally, and on our business, prospects, cash flows, financial condition and results of operations.

***We may be subject to delays, fines or forfeitures of land if we do not develop such land in compliance with the terms of the underlying land grant contract.***

Under PRC law, if a developer fails to develop land according to the terms of the underlying land grant contract (including terms relating to land use, payment of fees or the time for commencement and completion of development), the relevant land administration authorities may issue a warning to or impose a penalty on the developer or require the developer to forfeit the land. In addition, development not in accordance with land grant contracts may result in the breach of applicable PRC laws or regulations, orders to cease work, delays in completion, delays in the commencement of pre-sales or sales or orders to demolish non-conforming structures, among other consequences. Furthermore, the amendment of land grant contracts may result in payments of additional land grant fees. We cannot assure you that circumstances leading to delays, fines or possible forfeiture of land will not occur in the future.

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

Under the relevant regulation of construction quality in PRC, all property development companies in the PRC must provide certain quality warranties for the properties they develop or sell. We are required to provide these warranties to our customers. We may sometimes receive quality warranties from our third-party contractors with respect to our development projects. If a significant number of claims are brought against us under our warranties and if we are unable to obtain indemnities for such claims from third-party contractors in a timely manner or at all, 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, prospects, financial condition and results of operations.

***We may be involved in disputes arising out of our operations and may face significant liability as a result.***

We may be involved in disputes with various parties in connection with our operations including contractors, suppliers, construction workers, occupants of our projects, business partners and purchasers. These disputes may lead to protests and legal or other proceedings and may result in damage to our reputation, substantial costs, delay in our development schedule and diversion of resources and management's attention. These disputes may have a material adverse effect on our business, financial position and operating results. See the section entitled "Business — Legal Proceedings" in this offering memorandum for further details.

**Risks Relating to Doing Business in the PRC**

***Economic, political and social conditions, as well as government policies in China could have a material adverse effect on our business, prospects, cash flows, results of operations and financial condition.***

All of our business is conducted in, and all of our revenues are derived from, China. Accordingly, our business, prospects, cash flows, financial condition and results of operations are, to a significant degree, subject to economic, political and social developments in China.

The economy of China differs from the economies of most developed countries in many respects, including, but not limited to: structure; governmental involvement; level of development; growth rate of GDP; capital re-investment; allocation of resources; control of foreign currency; and rate of inflation.

The economy of China has been transitioning from a planned economy to a market-oriented economy. Although in recent years the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, 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 industries by imposing industrial policies. It also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

Policies and measures taken by the PRC government to regulate the economy and guide the allocation of resources may benefit the overall economy of China but could have a significant negative impact on our business. For example, our business, prospects, cash flows, results of operations and financial condition may be materially and adversely affected by:

- government control over capital investment;
- new laws and regulations and the interpretations of those laws and regulations;
- the introduction of measures to control inflation or regulate growth;
- changes in interest rates and statutory reserve rates for banks and government control of bank lending activities;
- changes in the rate or method of taxation and tax regulations that are applicable to us; and
- the imposition of additional restrictions on currency conversions and remittances abroad.

***The PRC legal system has inherent uncertainties that could negatively impact our business.***

Our business is operated through, and our revenues are generated by, our operating subsidiaries in the PRC. Substantially all of our assets are located in the PRC. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has issued laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their nonbinding nature, the interpretation and enforcement of these laws and regulations may involve uncertainties and may not be as consistent or predictable as in other more developed jurisdictions. Furthermore, the legal protections available to us under these laws and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and could result in substantial costs and diversion of resources and management attention.

***Fluctuation in the exchange rates of the Renminbi may have a material adverse effect on us and on your investment.***

The exchange rates between the Renminbi, the U.S. dollar and other foreign currencies is affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is pegged against a basket of currencies, determined by the PBOC, against which it can fluctuate within a narrow and managed band based on market supply and demand and by reference to a basket of currencies. On May 21, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allowed the Renminbi to fluctuate against the U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0 per cent. on April 16, 2012. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 26.9 per cent. from July 21, 2005 to December 31, 2013. On March 14, 2014, the PBOC further widened the floating band against the U.S. dollar to 2.0 per cent. On August 11, 2015, to improve the central parity quotations of Renminbi against the U.S. dollar, the PBOC authorized market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Following the announcement by the PBOC on August 11, 2015, Renminbi depreciated significantly against the U.S. dollar. In January and February 2016, Renminbi experienced further fluctuation in value against the U.S. dollar. The PRC Government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. These changes in policy have resulted in fluctuations of the Renminbi against the U.S. dollar. There can be no assurance that the RMB exchange rate will remain stable against the U.S. dollar or other foreign currencies in the market. While the international reaction of the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC Government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar or other foreign currencies.

Substantially all of our revenues are generated by our PRC operating subsidiaries and are denominated in Renminbi. We rely on dividends paid by our operating subsidiaries, which in turn will be used by us to pay interest on the Notes. To the extent that we need to convert the proceeds from this offering and future financing into the Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would reduce the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments of interest and certain other amounts on the Notes or for other business purposes, appreciation of the U.S. dollar against the Renminbi would reduce the U.S. dollar amount available to us. Fluctuations in exchange rates may also adversely affect the value, translated or converted into Hong Kong dollars, of our net assets, earnings and any declared dividends.

***Governmental control over currency conversion may limit our ability to utilize our cash effectively and potentially affect our ability to pay interest to Noteholders.***

We currently receive substantially all of our revenues in Renminbi through our ownership and operation of China South City Shenzhen. However, certain of our expenses, including labor costs for our employees in Hong Kong, rental expenses for our office space in Hong Kong and advertising expenses for advertising in Hong Kong and overseas media are denominated in foreign currencies, mostly Hong Kong dollars and U.S. dollars. The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

Under our current corporate structure, our Company's income is derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay interest to Noteholders. In addition, because a significant amount of our future cash flows from operations will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of China or otherwise fund our business activities that are conducted in foreign currencies.

***We may be deemed a PRC resident enterprise under the Enterprise Income Tax Law and thus be subject to PRC taxation on our worldwide income and be obligated to withhold PRC income tax on payment of interest and certain other amounts on Notes.***

Under the EIT Law enacted by the National People's Congress in March 2007, enterprises established under the laws of foreign countries or regions whose "de facto management bodies" are located within the PRC are considered "resident enterprises" for PRC tax purposes and will generally be subject to the EIT at the rate of 25% on their global income. The implementation rules of the EIT Law define the term "de facto management body" as a management body that exercises full and substantial control and management over the business, personnel, accounts and properties of an enterprise. The State Administration of Taxation promulgated a circular in April 2009 which specifies certain criteria for the determination of the "de facto management bodies" for foreign enterprises that are controlled by PRC enterprises or PRC enterprise groups. However, there have been no official implementation rules regarding the determination of the "de facto management bodies" for enterprises established offshore by private individuals or foreign enterprises like us. Substantially all of our management is currently located in the PRC. If we are treated as a PRC resident enterprise for income tax purposes, we will be subject to income tax at the rate of 25% on our global income. Furthermore, we would be obligated to withhold PRC income tax of up to 7%, subject to approval by the relevant tax authorities, on payments of interest and certain other amounts on the Notes to investors that are non-resident enterprises located in Hong Kong or 10% on payments of interest and other amounts on the Notes to investors that are non-resident enterprises located outside Hong Kong, because the interest and other amounts would be regarded as being derived from sources within the PRC. If we fail to make proper withholdings, we may be subject to fines and other penalties. Similarly, any gain realized by such nonresident enterprise investor from the transfer of the Notes would be regarded as being derived from sources within the PRC and accordingly would be subject to a 10% PRC tax.

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

Effective from May 1, 2016, PRC tax authorities have started imposing value added tax ("VAT") on revenues from various service sectors, including real estate, construction, financial services and insurance, as well as other lifestyle service sectors, replacing the business tax ("BT") that co-existed with VAT for over 20 years. Since the issuance of Circular Caishui [2016] No. 36 ("Circular 36") on March 23, 2016, the PRC Ministry of Finance and State Administration of Taxation have subsequently issued a series of tax circulars in March and April 2016 to implement the collection of VAT on revenues from construction, real estate, financial services and lifestyle services. The VAT rates applicable to us may be generally higher than the BT rate we were subject to prior to the implementation of Circular 36. For example, the VAT rate for construction services will generally be increased from 3% (current BT rate) to 11%; the VAT rate for real estate services will be increased from 5% (current BT rate) to 11%. Unlike the BT, the VAT will only be imposed on added value, which means the input tax incurred from our construction, real estate, and financial services will be able to be offset in the output tax. However, details of concrete measures are still being formulated in accordance with Circular 36. We are still in the process of assessing the comprehensive impact of the new VAT regime on our tax burden, our revenues and results of operations, which remains uncertain.

***We will be able to redeem the Notes in whole at a redemption price equal to 100% of their 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 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 redeem the Notes at a redemption price equal to 100% of their principal amount plus accrued and unpaid interest.

***We may face PRC regulatory risks relating to our Share Option Scheme.***

On February 15, 2012, SAFE issued the Circular on Relevant Issues Regarding the Foreign Exchange Administration for Domestic Individuals Participating in Stock Option Plan of Overseas-Listed Company, or the Stock Option Rules.

Under the Stock Option Rules, PRC domestic individuals who are granted stock options and other types of stock-based awards by an overseas publicly listed company are required, through an agent of the overseas publicly listed company, generally its PRC subsidiary or a financial institution, to obtain approval from the local SAFE branch.

If we are unable to comply with these rules, we may be subject to the relevant penalties and may become subject to more stringent review and approval processes with respect to our foreign exchange activities, such as our PRC subsidiaries' payment of dividends to us or borrowing of foreign currency loans, which would adversely affect our business and financial condition. We may face regulatory risks relating to our Share Option Scheme, however, if we grant share options to PRC domestic individuals in the future.

***It may be difficult to effect service of process upon us or our directors or senior officers who reside in China or to enforce against them in China any judgments obtained from non-PRC courts.***

A significant portion of our assets and our subsidiaries are located in the PRC. In addition, most of our directors and officers reside in the PRC, and the assets of our directors and officers may also be located in the PRC. As a result, it may not be possible to effect service of process outside the PRC upon most of our directors and officers, including with respect to matters arising under applicable securities laws. A judgment of a court of another jurisdiction may be reciprocally recognized or enforced in the PRC if that jurisdiction has a treaty with the PRC or if judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of any other requirements. Our PRC legal advisor has advised us that the PRC does not have treaties providing for the reciprocal acknowledgement and enforcement of judgments of courts with the United States and most other western countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in any of these jurisdictions may be difficult.

**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 as well as our joint ventures and associates in the PRC. The Notes will not be guaranteed by any current or future PRC subsidiaries. Moreover, the Notes will not be guaranteed by certain existing offshore subsidiaries and under the terms of the Indenture, subject to certain conditions, we may designate any such subsidiary (including a Subsidiary Guarantor) as a Designated Non-Guarantor Subsidiary which would allow, in the case of a Subsidiary Guarantor, for the Subsidiary Guarantee to be released, or in the case of a new offshore Restricted Subsidiary, such Restricted Subsidiary not to provide a Subsidiary Guarantee or JV Subsidiary Guarantee. Our primary assets are loans to and our direct and indirect ownership interests in our PRC subsidiaries. The Subsidiary Guarantors do not, and the JV Subsidiary Guarantors (if any) may not, have material operations. Accordingly, our ability to pay principal and interest on the Notes and the ability of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) to satisfy their obligations under the Subsidiary Guarantees or the JV Subsidiary Guarantees (as the case may be) 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 Non-Guarantor Subsidiaries and any holders of preferred shares in such entities, would have a claim on our Non-Guarantor Subsidiaries' assets that would rank higher than 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 their obligations 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. The Notes and the Indenture do not restrict the ability of our subsidiaries to incur certain categories of indebtedness. In addition, our secured creditors or those of any Subsidiary Guarantor, or JV Subsidiary Guarantor (if any) would have priority as to our assets or the assets of such Subsidiary Guarantor or JV Subsidiary Guarantor (if any) 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, or JV Subsidiary Guarantee, following the sale or issuance to a third party of a 20% to 49.9% equity interest in such subsidiary by 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 all JV Subsidiary Guarantors in aggregate). Recovery under a JV Subsidiary Guarantee is limited to an amount equal to our proportional interest in the issued share capital of such Subsidiary Guarantor, or 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.

***We have incurred significant indebtedness and may incur substantial additional indebtedness in the future, which could adversely affect our financial condition and could further intensify the risks associated with our leverage.***

We have significant indebtedness outstanding. As of March 31, 2016, our consolidated current interest-bearing bank and other borrowings and our consolidated non-current interest-bearing bank and other borrowings amounted to HK$7,656.9 million and HK$8,965.9 million, respectively. As of March 31, 2016, we had a principal amount of US$125 million of 2012 Notes, US$400 million of 2014 Notes, RMB2.1 billion of short-term notes, RMB4.0 billion of medium-term notes, RMB1.5 billion of corporate bonds and RMB3.0 billion domestic company bonds outstanding. In addition, as of March 31, 2016, we had consolidated capital commitments of HK$7,350.5 million and contingent liabilities arising from guarantees of HK$5,805.4 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Indebtedness and Contingent Liabilities — Commitments and Contingent Liabilities — Capital Commitments."

In addition, we and our subsidiaries may from time to time incur substantial additional indebtedness and contingent liabilities. Although the indentures governing the Notes and the 2014 Notes restrict us and our Restricted Subsidiaries from incurring additional debt and contingent liabilities, these restrictions are subject to important exceptions and qualifications. If we or our subsidiaries incur additional debt, the risks that we face as a result of such indebtedness and leverage could intensify. The amount of our indebtedness could have important consequences to the Noteholders. For example, it could:

- limit our ability to satisfy our obligations under the Notes, the 2014 Notes and other debt;
- increase our vulnerability to adverse general economic and industry condition;
- require us to dedicate a substantial portion of our cash flows from operations to servicing and repaying indebtedness, thereby reducing the availability of our cash flows to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in the 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, our ability to borrow additional funds; and
- increase the cost of additional financing.

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. 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 existing indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms.

In addition, the terms of the indentures governing the Notes and the 2014 Notes prohibit us from incurring additional indebtedness unless (i) we are able to satisfy certain financial ratios or (ii) we are able to incur such additional indebtedness pursuant to any of the exceptions to the financial ratios requirements, and meet any other applicable restrictions. Our ability to meet our financial ratios may be affected by events beyond our control. We cannot assure you that we will be able to meet these ratios during the life of the Notes and the 2014 Notes. Certain of our other financing arrangements also impose operating and financial restrictions on our business. See "Description of Other Material Indebtedness." Such restrictions in the Indenture, the indentures governing the 2014 Notes and our other financing arrangements may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities, obtain future financing, fund required capital expenditures, or withstand a continuing or future downturn in our business. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Notes and other debt.

***Our operations are restricted by the terms of the Notes, 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 Indenture includes 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 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;
- engage in any business other than permitted business;
- 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.

***If we are unable to comply with the restrictions and covenants in our current or future debt agreements or the indentures governing the Notes or the 2014 Notes, there could be an event of default under the terms of these agreements or such indentures, which could cause repayment of our debt to be accelerated.***

If we are unable to comply with the restrictions and covenants in the indentures governing the Notes or the 2014 Note or our current or future debt obligations and other agreements, there could be an event of 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 outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the indentures governing the Notes and the 2014 Notes, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes and the 2014 Notes, or result in a default under our other debt agreements, including the indentures governing the Notes and the 2014 Notes. If any of these events occur, we cannot assure you that our assets and cash flows 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 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 and associates in the PRC, to satisfy our obligations, including our obligations under the Notes and the 2014 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 or agreements of such subsidiaries. For example, certain loan agreements of our subsidiaries contain covenants that limit their ability to pay dividends to us until the loans are repaid, or unless certain profit thresholds are satisfied, or, in certain cases, limit their ability to pay dividends to us if the amount of the dividends exceed 30% of their after-tax profits. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such equity securities 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 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 ability of our subsidiaries in the PRC to pay dividends to their shareholders is also subject to the requirements of PRC law. PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. 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. In addition, starting from January 1, 2008, dividends paid by our PRC subsidiaries to their non-PRC parent companies have been subject to a 10% withholding tax, unless there is an avoidance of double taxation arrangement between the PRC and the jurisdiction in which the overseas parent company is incorporated, which specifically exempts or reduces such withholding tax. Pursuant to an avoidance of double taxation arrangement 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 tax rate may be lowered to 5%. However, according to a circular issued by the State Administration of Taxation in October 2009, tax treaty benefits will be denied to "conduit" or shell companies without business substance. As a result of such restrictions, there could be timing limitations on payments from our PRC subsidiaries to meet payments required by the Notes or satisfy 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.

At present, our PRC subsidiaries are also required to pay a 7% withholding tax on the interest paid under any shareholder loans and to provide evidence of this and other documents before they can make payments of interest and principal on shareholder loans in foreign currency. See "— Risks Relating to Doing Business in the PRC — Governmental control over currency conversion may limit our ability to utilize our cash effectively and potentially affect our ability to pay interest to Noteholders."

As a result of the foregoing, we cannot assure you that we will have sufficient cash flows from dividends 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 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, the competitive landscape and other factors, we may from time to time consider developing property developments jointly with other property developers. As a result, we may need to make investments in joint ventures (including joint ventures in which we may own less than a 50% equity interest) and such joint ventures may or may not be Restricted Subsidiaries under the indenture governing the Notes. 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. See the definition of "Permitted Investment" in "Description of the Notes."

***We may not be able to repurchase the Notes or the 2014 Notes upon a Change of Control Triggering Event.***

We must offer to purchase the Notes and the 2014 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" and "Description of Other Material Indebtedness."

The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have sufficient available funds at the time of the occurrence of any Change of Control Triggering Event to make purchases of outstanding Notes or the outstanding 2014 Notes. Our failure to make the offer to purchase or to purchase the outstanding Notes or the outstanding 2014 Notes would constitute an Event of Default under the indentures governing the Notes and the 2014 Notes. Such an 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 the 2014 Notes and repay the debt.

In addition, the definitions of Change of Control Triggering Event for purposes of the indentures governing the Notes and the 2014 Notes do not necessarily afford protection for the holders of the Notes in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancing, restructurings or other recapitalizations. These types of transactions could, however, increase our indebtedness or otherwise affect our capital structure or credit ratings. The definitions of Change of Control Triggering Event for purposes of the indentures governing the Notes and the 2014 Notes also include 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 2014 Notes, 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 Hong Kong, the British Virgin Islands and the Cayman Islands differ from U.S. bankruptcy law and the laws of other jurisdictions with which holders of the Notes are familiar.***

Because our Company is incorporated in Hong Kong, an insolvency proceeding relating to us, even if brought in the United States, would likely involve Hong Kong insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law. In addition, our Subsidiary Guarantors and JV Subsidiary Guarantors (if any) are incorporated or may be incorporated in the British Virgin Islands, the Cayman Islands or Hong Kong, and the insolvency laws of the British Virgin Islands and the Cayman Islands 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.

***There may not be a trading market for the Notes, and there are restrictions on resale of the Notes.***

Although we have received approval in-principle for the listing and quotation of the Notes on the Official List of the SGX-ST, we cannot assure you that we will obtain or be able to maintain a listing and quotation of the Notes 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 "Plan of Distribution." We cannot predict whether there will be an active trading market for the Notes.

***The ratings assigned to the Notes may be lowered or withdrawn in the future.***

The Notes are expected to be rated "B-" by S&P Global Ratings and "B" by Fitch Inc. 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. 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 a rating will remain unchanged for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of any 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 10.0% 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 to obtain approval from independent shareholders. 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 revenue, profit and cash flows, proposals for new investments, strategic alliances and/or acquisitions, changes in interest rates, fluctuations in price of debt securities for comparable companies, government regulations and changes thereof applicable to our industry and general economic conditions in the PRC or internationally 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, our financial statements and the financial information in this Offering Memorandum are prepared and presented in accordance with HKFRS, which differ in certain significant respects from generally accepted accounting principles in other jurisdictions.

***We 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.***

We are subject to reporting obligations in respect of the Notes listed on the Official List of the SGX-ST. 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.

***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 certificate form and held through Euroclear and Clearstream. Interests in the Notes represented by the global certificate will trade in book entry form only, and 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. The nominee of the common depositary for Euroclear and

Clearstream will be the sole registered holder of the global certificate representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global certificate 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 certificate representing the Notes and credited by such participants to indirect participants. After payment to the nominee of the common depositary for Euroclear and Clearstream, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book entry interests. Accordingly, if you own a book entry interest, you must rely on the procedures of Euroclear and Clearstream or, if you are not a participant in Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of Noteholder 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 Noteholders. Instead, if you own a book entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

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

**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.***

We conduct substantially all of our business operations through our PRC subsidiaries, but none of our current PRC subsidiaries will at any time provide a Subsidiary Guarantee or a JV Subsidiary Guarantee. No future subsidiaries that are organized under the laws of the PRC will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee at any time in the future. Moreover, the Notes are not guaranteed by certain existing offshore subsidiaries and under the terms of the Indenture, subject to certain conditions, we may designate any offshore subsidiary (including a Subsidiary Guarantor) as a Designated Non-Guarantor Subsidiary, which would allow, in the case of a Subsidiary Guarantor, for the Subsidiary Guarantee to be released, or in the case of a new offshore Restricted Subsidiary, for such Restricted Subsidiary not to provide a Subsidiary Guarantee or JV Subsidiary Guarantee, subject to certain conditions. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of our PRC subsidiaries and all Non-Guarantor Subsidiaries. Moreover, the charge over the shares of the offshore subsidiaries of the Company (the "Collateral") does not include the capital stock of our existing or future Non-Guarantor Subsidiaries.

The Subsidiary Guarantors that have guaranteed the Notes do not have significant operations. In addition, the Subsidiary Guarantors also guarantee our obligations under the Notes and the 2014 Notes. We cannot assure you that the 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 or the 2014 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, we may designate any offshore subsidiary (including a Subsidiary Guarantor) as a Designated Non-Guarantor Subsidiary which would allow, in the case of a Subsidiary Guarantor, for the Subsidiary Guarantee to be released, or in the case of a new offshore Restricted Subsidiary, such Restricted Subsidiary not to provide a Subsidiary Guarantee or JV Subsidiary Guarantee, if at any time of determination, the total consolidated assets of all offshore Non-Guarantor Subsidiaries (other than Exempted Subsidiaries and any Listed Subsidiary) would not exceed 20.0% of Total Assets.

Moreover, under the terms of the Notes, a Subsidiary Guarantee required to be provided by one of our subsidiaries may be replaced by a limited recourse JV Subsidiary Guarantee following the sale or issuance to a third party of a 20% to 49.9% 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 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 our last fiscal year end. 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.

***The Intercreditor Agreement may impair our ability and the ability of the Subsidiary Guarantors and the JV Subsidiary Guarantors to pay amounts due under the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees, and the Intercreditor Agreement may limit the rights of the Noteholders to the Collateral.***

Provided the Shared Security Agent is, to the extent requested, indemnified in respect of actions to be taken, it is required to take action to enforce the Collateral in accordance with the instructions of the secured creditors given under the Intercreditor Agreement. Any enforcement action taken by the Shared Security Agent will adversely affect our entitlement to receive proceeds from the Collateral, which will, in turn, have an adverse impact on our ability to fulfill our payment obligations under the Notes. Furthermore, the Subsidiary Guarantors' ability to pay under the Subsidiary Guarantees will be adversely affected.

The ability of the Noteholders to enforce the Collateral is restricted under the Intercreditor Agreement, as only the Shared Security Agent is permitted to take enforcement actions. If an event of default occurs under the Notes, any secured party under the Intercreditor Agreement, including, the 2014 Notes Trustee, the Trustee or the holders of any Permitted Pari Passu Secured Indebtedness, may decide whether to take any enforcement action and thereafter, through the Trustee and/or the 2014 Notes Trustee (as the case may be), subject to the satisfaction of the conditions under the Intercreditor Agreement, may instruct the Shared Security Agent to take such enforcement action. In addition, by virtue of the instructions given to the Shared Security Agent described above, actions may be taken in respect of the Collateral that may be adverse to you. In such event, the only remedy available to the Noteholders would be to sue for payment on the Notes, the Subsidiary Guarantees, the JV Guarantees (if any) and the Collateral. For a description on the Intercreditor Agreement, see "Description of the Notes — Security — Intercreditor Agreement" and "— The value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Notes and other pari passu secured indebtedness."

The Shared Security Agent, acting in its capacity as such, only has such duties with respect to the Collateral pledged, charged, assigned or granted pursuant to the Intercreditor Agreement and the Security Documents as are expressly set forth in the Intercreditor Agreement, and as Trustee in respect of the Notes and as 2014 Notes Trustee in respect of the 2014 Notes. Under certain circumstances, the Shared Security Agent may have obligations under the Security Documents or the Intercreditor Agreement and the underlying indentures that are in conflict with the interests of the holders of the Notes. The Shared Security Agent will not be under any obligation to exercise any rights or powers conferred under the Intercreditor Agreement or any of the Security Documents for the benefit of the holders of the Notes, unless the Shared Security Agent has received written instructions and to the extent requested, appropriate indemnification in respect of actions to be taken.

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

Under bankruptcy laws, fraudulent transfer laws, insolvency or unfair preference or similar laws in the British Virgin Islands, the Cayman Islands, Hong Kong and other jurisdictions where existing and future Subsidiary Guarantors or JV Subsidiary Guarantors (if any) are or may be established, 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 the incurrence of such guarantee;

- 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 (if any) 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 Guarantees (as the case may be), voidable under such applicable insolvency or fraudulent transfer laws.

If a court voids a Subsidiary Guarantee or JV Subsidiary Guarantee (as the case may be), subordinates such guarantee to other indebtedness of the Subsidiary Guarantor or JV Subsidiary Guarantor, or holds the Subsidiary Guarantee or JV Subsidiary Guarantee (as the case may be) unenforceable for any other reason, holders of the Notes would cease to have a claim against that Subsidiary Guarantor or JV Subsidiary Guarantor 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, and would solely be creditors of us and any Subsidiary Guarantors or JV Subsidiary Guarantors (if any) 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 British Virgin Islands 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 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 above under "— 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 any JV Subsidiary Guarantees." 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 and the Subsidiary Guarantor Pledgors.

***The value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Notes and other pari passu secured indebtedness.***

The Collateral consists only of the capital stock of the Subsidiary Guarantors and may in the future include our proportional interest in the JV Subsidiary Guarantors (if any). 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 Shared Security Agent, on behalf of the Trustee, 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 status. Although procedures will be undertaken to support the validity and enforceability of the security interests, we cannot assure you that the Shared Security Agent, the Trustee or holders of the Notes will be able to enforce the security interest in the Collateral. In addition, although the Trustee may instruct the Shared Security Agent to foreclose the Collateral upon the occurrence of an event of default that is continuing, such instruction may be overruled by a contrary instruction to the Shared Security Agent from holders of more than 50% of the indebtedness that is subject to the Intercreditor Agreement.

The value of the Collateral in the event of 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 its nature, the Collateral, which consists solely of the capital stock of any existing or future Subsidiary Guarantor, is likely to be illiquid and is unlikely to have a 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 consists of shares of our non-PRC subsidiaries. With one exception, our non-PRC subsidiaries do not currently hold shares of any of our PRC subsidiaries. Our PRC subsidiaries hold substantially all of our consolidated assets and generate substantially all of our consolidated revenue. Accordingly, holders of the Notes should not expect to be able, directly or indirectly, to direct the management or policies of, or otherwise exert control over, our PRC subsidiaries or gain access to our key assets by foreclosing upon the Collateral, which may further limit the value of the Collateral.

The Collateral is shared on a pari passu basis by the holders of the Notes, the holders of the 2014 Notes and any other creditors with respect to Permitted Pari Passu Secured Indebtedness. Accordingly, in the event of a default on the Notes, the 2014 Notes or 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 such secured indebtedness. The value of the Collateral securing the Notes, the 2014 Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors is unlikely to be sufficient to satisfy the obligations of the Company and each of the Subsidiary Guarantor Pledgors under the Notes, the 2014 Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, and the Collateral securing the Notes, the 2014 Notes and such Subsidiary

Guarantees may be reduced or diluted under certain circumstances, including the issuance of Additional Notes, additional 2014 Notes or of other Permitted Pari Passu Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture and the indenture governing the 2014 Notes. The Indenture also permits us to enter into certain future financings, and creditors under those future financings may share the Collateral pari passu with the holders of the Notes. See "Description of the Notes — Security — Permitted Pari Passu Secured Indebtedness" for a further discussion of the sharing of the Collateral with future financings. If creditors under future financings opt to share the Collateral under the Intercreditor Agreement, a smaller portion of the proceeds from the Collateral will be available to satisfy the Noteholders' claims, which could have a material adverse effect on the ability of the Noteholders to recover sufficient proceeds to satisfy their claims under the Notes.

Furthermore, the security over the Collateral for our obligations under the Notes and the Indenture has not been granted directly to the holders of the Notes but has been granted only in favor of the Shared Security Agent on behalf of the Trustee and the other secured parties under the Intercreditor Agreement. As a consequence, holders of the Notes do not have direct security and are not entitled to take enforcement action in respect of the security for the Notes, except through the Shared Security Agent, which has agreed to apply any proceeds of enforcement on such security towards such obligations.

***The pledge of certain Collateral may be released under certain circumstances.***

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.

# CAPITALIZATION AND INDEBTEDNESS

The following table sets forth on an actual basis our consolidated capitalization and indebtedness as of March 31, 2016, as adjusted to give effect to the issuance of the Notes and receipt of the net proceeds from this offering by us. The following table should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this offering memorandum.

| | As of March 31, 2016 | | | |
|---|---|---|---|---|
| | Actual | | As adjusted(1) | |
| | HK$ | US$(5) | HK$ | US$(5) |
| | (in thousands) | | (in thousands) | |
| **Cash and cash equivalents and restricted cash** | 11,686,695 | 1,506,736 | | |
| **Short-term debt(2)** | | | | |
| Interest-bearing bank and other borrowings | 7,656,878 | 987,182 | 7,656,878 | 987,182 |
| Short-term notes | 2,525,460 | 325,601 | 2,525,460 | 325,601 |
| Total short-term debt | 10,182,338 | 1,312,783 | 10,182,338 | 1,312,783 |
| **Long-term debt(3)** | | | | |
| Interest-bearing bank and other borrowings | 8,965,863 | 1,155,946 | 8,965,863 | 1,155,946 |
| 2012 Notes | 1,013,163 | 130,625 | 1,013,163 | 130,625 |
| 2014 Notes | 3,100,200 | 399,701 | 3,100,200 | 399,701 |
| Medium-term notes | 5,026,696 | 648,079 | 5,026,696 | 648,079 |
| Corporate bonds | 1,891,219 | 243,830 | 1,891,219 | 243,830 |
| Domestic company bonds | 3,629,086 | 467,889 | 3,629,086 | 467,889 |
| Notes to be issued | – | – | | |
| **Total long-term debt** | 23,626,227 | 3,046,070 | | |
| **Equity** | | | | |
| Equity attributable to owners of the parent | | | | |
| Share capital | 7,043,784 | 908,137 | 7,043,784 | 908,137 |
| Other reserves | 19,134,733 | 2,466,992 | 19,134,733 | 2,466,992 |
| | 26,178,517 | 3,375,129 | 26,178,517 | 3,375,129 |
| Non-controlling interests | 189,948 | 24,490 | 189,948 | 24,490 |
| **Total equity** | 26,368,465 | 3,399,619 | 26,368,465 | 3,399,619 |
| **Total capitalization(4)** | 49,994,692 | 6,445,689 | | |

(1) "As adjusted" refers to adjustments which give effect to the issuance of the Notes and receipt of the net proceeds from this offering by the Company.

(2) Includes the current portion of long-term debt.

(3) Excludes the current portion of long-term debt.

(4) Total long-term debt plus total equity.

(5) Translated at the rate of US$1.00 = HK$7.7563, which is the noon buying rate for U.S. dollars in New York City on March 31, 2016 for cable transfers in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York.

Subsequent to March 31, 2016, we have obtained approximately HK$1,472.2 million of new banking facilities and repaid approximately HK$3,824.3 million of our existing debts (including the redemption in full of our 2012 Notes). In addition, we issued domestic company bonds in the PRC with a total principal amount of RMB1,400,000,000 with a term of 3 years.

Except as disclosed above, there has been no material change in our consolidated capitalization or indebtedness since March 31, 2016.

# SUMMARY CONSOLIDATED FINANCIAL DATA

The following tables present our summary consolidated financial data. The summary consolidated financial data as of and for each of the years ended March 31, 2014, 2015 and 2016 (except for EBITDA data) have been derived from our audited consolidated financial statements as of such dates and for such years included elsewhere in this offering memorandum.

Our financial statements have been prepared and presented in accordance with HKFRS. The summary consolidated financial data below should be read in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

| | Fiscal Year Ended March 31, | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | **(HK$ in thousands, except per share data)** | | |
| **Consolidated Income Statement Data:** | | | |
| **Revenue** | 13,468,322 | 9,757,767 | 6,136,262 |
| Cost of sales | (6,921,158) | (4,582,237) | (3,177,209) |
| **Gross Profit** | 6,547,164 | 5,175,530 | 2,959,053 |
| Other income and gains/(losses) | 187,823 | 334,096 | 1,066,242 |
| Fair value gains on investment properties | 1,266,287 | 2,398,531 | 3,232,699 |
| Selling and distribution expenses | (581,229) | (721,991) | (864,670) |
| Administrative expenses | (862,968) | (1,083,587) | (1,177,180) |
| Other expenses | (234,779) | (70,285) | (152,525) |
| Finance costs | (152,852) | (165,595) | (159,386) |
| Share of profits and losses of: | | | |
| A joint venture | 244 | — | — |
| Associates | (862) | (7,210) | — |
| **Profit before tax** | 6,168,828 | 5,859,489 | 4,904,233 |
| Income tax expenses | (2,472,478) | (2,144,709) | (1,370,457) |
| Profit for the year | 3,696,350 | 3,714,780 | 3,533,776 |
| **Attributable to:** | | | |
| Owners of the parent | 3,494,481 | 3,727,872 | 3,537,012 |
| Non-controlling interests | 201,869 | (13,092) | (3,236) |
| | 3,696,350 | 3,714,780 | 3,533,776 |
| Dividends per share | HK$0.14 | HK$0.14 | HK$0.05 |
| Earnings per share — Basic | HK$0.56 | HK$0.49 | HK$0.44 |
| **Other financial data** | | | |
| Core net profit attributable to owners of the parent[(1)] | 2,677,696 | 1,854,273 | 1,205,782 |
| EBITDA[(2)] | 6,348,433 | 6,064,176 | 5,152,175 |
| Adjusted EBITDA[(3)] | 5,269,126 | 3,574,921 | 2,122,432 |
| Net cash inflow from operating activities | 2,702,900 | 1,386,810 | 1,187,337 |

| | As of March 31, | | |
|---|---|---|---|
| | 2014 | 2015 | 2016 |
| | (HK$ in thousands) | | |
| **Consolidated Statement of Financial Position Data:** | | | |
| Non-current assets | 29,918,774 | 38,990,032 | 44,393,168 |
| Current assets: | | | |
| Cash and cash equivalents and restricted cash | 12,777,108 | 8,672,722 | 11,686,695 |
| Other current assets | 17,265,060 | 25,591,217 | 27,305,468 |
| Total current assets | 30,042,168 | 34,263,939 | 38,992,163 |
| Total assets | 59,960,942 | 73,253,971 | 83,385,331 |
| Current liabilities: | | | |
| Short-term interest-bearing bank and other borrowings | 5,841,720 | 6,824,949 | 7,656,878 |
| Other current liabilities | 18,401,709 | 21,520,675 | 20,364,295 |
| Total current liabilities | 24,243,429 | 28,345,624 | 28,021,173 |
| Non-current liabilities: | | | |
| Long-term interest-bearing bank and other borrowings | 6,610,675 | 8,640,398 | 8,965,863 |
| Other non-current liabilities | 8,962,693 | 11,246,133 | 20,029,830 |
| Total non-current liabilities | 15,573,368 | 19,886,531 | 28,995,693 |
| Total liabilities | 39,816,797 | 48,232,155 | 57,016,866 |
| Total equity | 20,144,145 | 25,021,816 | 26,368,465 |
| Total equity and liabilities | 59,960,942 | 73,253,971 | 83,385,331 |

(1) Represents the net profit attributable to owners of the parent excluding fair value gains on investment properties and related tax effects, fair value gain on derivative financial instrument and loss on redemption of senior notes.

(2) EBITDA consists of profit before interest income, income tax expenses, depreciation and amortization and finance costs (excluding capitalized interest). 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" for a reconciliation of our profit for the year or period under HKFRS to our definition of EBITDA. Investors should also note that EBITDA as presented above is calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. 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.

(3) Adjusted EBITDA consists of profit before interest income, income tax expenses, depreciation and amortization, finance costs (excluding capitalized interest) and non-operating income and expenses (including fair value gains and losses on investment properties, foreign exchange differences, net, and gain and loss on redemption of senior notes).

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion should be read in conjunction with our consolidated financial statements, including the notes thereto, included elsewhere in this offering memorandum. Our consolidated financial statements were prepared in accordance with HKFRS. This discussion contains forward-looking statements. There may be future events that we are unable to accurately predict or control and that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements.*

**Overview**

We are a leading developer and operator of large-scale, integrated logistics and trade centers in the PRC, based on GFA, industry coverage and range of ancillary services and facilities offered. Leveraging our experience and brand reputation, we currently have eight projects in different stages of development located in regional economic hubs in Shenzhen, Nanning, Nanchang, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing, China, with a total planned GFA of approximately 81.8 million sq.m., out of which we have acquired land use rights of approximately 34.7 million sq.m. attributable GFA as of March 31, 2016, of which approximately 12.3 million sq.m. has been completed and approximately 6.5 million sq.m. is under development as of March 31, 2016.

Our business model is built on the premise of "One Body with Two Wings," with the "One Body" represented by our large-scale integrated logistics and trade centers, designed to serve as key commercial hubs to satisfy the economic and industrial needs of the regions in which we operate, and the "Two Wings" represented by the ancillary residential and commercial facilities, designed to facilitate the operations of our trade center occupants and their customers. We serve wholesale markets for multiple industries at our trade centers, which are complemented by residential developments and comprehensive ancillary commercial facilities including hotel, office, warehouse, exhibition and conference facilities as well as E-commerce services. Our residential facilities further complement our trade center operations by providing convenient, high-quality accommodations for our trade center occupants, as well as generating cash flows to cover a portion of project-related capital expenditures. Our business model is further augmented by the on-site presence of PRC government agencies, banks and securities firms, which offer a diverse range of services to trade center occupants and other customers.

Our "One Body with Two Wings" business model is supported by five pillars of ancillary services, namely our logistics and warehousing services, E-commerce services, outlet and furnishing centers operations, property management services and exhibition and conference facilities, that complement our core business of developing and operating trade centers. We provide one-stop logistics services such as warehousing, integrated inbound/outbound services, on-site delivery and freight forwarding to our customers. We provide an E-commerce platform, namely CSC86.com, which combines the advantages of physical and online stores, through which our clients can promote their businesses and products online. Following the success of trade fairs at our various projects, we established a one-stop exhibition platform for organizing convention and exhibition at our projects, through which we have hosted a number of significant events which has enhanced our reputation and facilitated traffic flow through our trade centers. In addition, our outlet and furnishing center operations have also boosted overall traffic at our related projects and expanded our operations. We plan to further boost overall traffic by building upon our successful outlets, expanding and replicating this further at our other projects. Our property management services help maintain a safe and comfortable business environment at our trade centers and ancillary facilities. We believe that this expansion of the scope of services provided will enable us to build a self-sustaining business strategy that will strengthen our overall business model.

We generate revenue at our logistics and trade centers primarily from sales, rental and other operating income from our trade center units and ancillary facilities. We generally sell a portion of our trade center units and ancillary facilities, and thereby generate revenues and cash flows, in the initial stages following completion of a trade center development to finance the development of our projects. The amount of revenue from recurring income has increased historically in line with the development of our projects, and we expect the amount and proportion of our revenues from recurring income to increase in the future as we gradually complete our existing projects.

**Factors Affecting Our Results of Operations**

We have identified the following important factors (as well as uncertainties associated with such factors) that could impact our future results of operations and financial condition.

***Stages of development of our projects***

The GFA of the properties we sell or lease depends on the progress we make on the construction of our development projects. We tend to experience sharp increases in revenues during periods when we complete a significant project or project phase and offer it for sale, followed by declines in revenue during periods when we have less new GFA available for sale. For example, historically, periods in which we had a larger percentage of trade center units sold to buyers generated greater revenues and cash flows than periods in which we had a larger percentage of trade center units completed and retained for investment and rented out to occupants. Such sale revenues also vary significantly based upon the GFA and quality of new saleable GFA, the proportion of GFA we allocate to sales versus rental properties, prevailing sales prices, market demand, interest rates, inflation, the availability of attractive mortgage terms to our buyers, the prevailing regulatory environment for property sales, regional economic growth, competition and other factors.

***Changes in Product Mix***

Our policy is to maintain a balanced mix between properties for sale and properties held as investment properties. The prices and gross profit margins of our products vary by the location and the classification and end use of certain facilities on the properties that we develop and sell or rent. Our trade center and commercial facilities usually afford us higher sales profit margins than residential and commercial facilities, because they typically have higher sales prices per sq.m. As a result, our gross profit margin is affected by the proportion of sales revenue attributable to trade centers, which have higher gross margins compared to sales revenue attributable to residential properties, which have lower gross margins. In addition, properties in larger-scale projects will typically command a higher selling price as the overall development approaches completion due to the attractiveness of a more established development, thereby increasing our sales profit margin during the relevant period. Our product mix varies from period to period due to a number of reasons, including project locations, land cost, market conditions and our development planning. While trade centers remain our primary focus, we expect our projects will include an increasing proportion of residential units in the near future to capitalize on recent positive developments in the residential property market due to measures implemented by the PRC government to reduce the housing inventory and promote rational consumption.

***Growth in recurring income***

As a project matures, our strategy is to increase revenue contribution from recurring income, which consists of rental income, property management services income, E-commerce income and income from the provision of logistics and warehousing services, outlet operations and other services. For the fiscal years ended March 31, 2014, 2015 and 2016, our recurring income was HK$655.7 million, HK$1,103.6 million and HK$1,420.6 million, respectively. As a percentage of revenue, our recurring income has increased steadily from 4.9% to 11.3% and 23.2% for the fiscal years ended March 31, 2014, 2015 and 2016, respectively. This increase in our recurring income is mainly attributable to (1) the competitive advantages of our fourth generation integrated logistics and trading platform, (2) the brand reputation and local awareness of our outlets, (3) the positioning of our projects as the potential logistics and distribution hubs in their respective regions, which enables the small and medium enterprises ("SME") operating within our projects to reduce their logistics and distribution costs and create key cost advantages and (4) increasing area managed by our property management companies. We expect that the revenue contribution from our sales of properties and recurring income may change as our projects mature.

### *Valuation of Our Investment Properties*

Our investment properties consist of trade centers, commercial and other ancillary facilities that are held for rental income and capital appreciation. We state our investment properties at their fair value on our statement of financial position as non-current assets as at the end of each reporting period based on valuations by Savills Valuation and Professional Services Limited, a qualified independent professional valuer. With respect to properties newly classified as investment properties, the properties are measured initially at cost and, subsequently, at fair value. The change in fair value of a new investment property is calculated as the difference between the property's fair market value and its construction costs. Thereafter, the fair market value of the property for the most recent reporting period end is compared to the fair market value as of the previous reporting period end. As we have new investment properties in the future, we expect the addition of these new properties will positively contribute to changes in fair values of investment properties, especially in the years in which properties are newly classified as investment properties.

Net increases or decreases in the fair market value of investment properties are reflected as an income or expense item, as appropriate, in the income statement as "change in fair value of investment properties." In addition, the fair value gains on our investment properties include gains recognized when the fair value of applicable investment properties under development can be reliably measured. Revaluation of completed investment properties has in the past resulted in, and may in the future result in, significant fluctuations in our results of operations.

### *Costs Associated with Land Acquisition and Construction*

Land acquisition costs, construction costs and capitalized finance costs are the principal components of our cost of properties sold. Land acquisition costs, which primarily consist of land grant fees, have increased in recent years due to a greater demand for properties as a result of the PRC's economic growth. PRC governmental land supply policies and implementation measures may further intensify competition among developers for available land.

Construction costs, which comprise all costs related to the design and construction of a project, can vary widely based on GFA, type of development, building design, types of construction materials, height of the buildings, and geology of the construction site. Changes in the market price for construction materials can cause fluctuations in construction costs. The increase in construction costs during each of the fiscal years ended March 31, 2014, 2015 and 2016 was primarily due to the variances in the design and architecture of our trade centers and a general increase in the cost of construction materials and labor. Each of our projects is a large-scale project consisting of multiple phases that: (1) will take several years to complete; (2) do not require full completion of all phases to be operational; (3) will be completed on a phase-by-phase basis; and (4) can be financed from a variety of funding sources, including project financing, other bank borrowings, pre-sales, recurring income and other cash flow from operations. In this regard, as a result of the continued growth and development of the PRC economy and the property development industry, wages for construction workers and the prices of construction materials and building equipment, we have experienced an increase in recent years, and we expect continued increases in the future.

Our capitalized expenses include all costs relating to the acquisition of land parcels, construction and development of our projects, including interest expense, to the extent that such costs are directly attributable to the costs of the construction and development of the projects. Finance costs we incur after we complete construction are not capitalized.

Land use rights costs and construction costs may fluctuate from period to period depending upon the timing of our acquisitions of land, our ability to fix our construction costs and the construction schedules of our properties under development.

### *Land Appreciation Tax*

Under PRC laws and regulations, our PRC subsidiaries that engage in integrated logistics and trade center development activities are subject to land appreciation tax ("LAT") which is levied on us by the relevant local tax authorities.

We are required under local regulations to pay provisional land appreciation tax in cities when we start to pre-sell or sell our property developments. Generally, the provisional land appreciation tax rates in these cities range from 1.0% to 5.0% of the pre-sale or sale proceeds, depending on the type and location of the pre-sold or sold properties. For the fiscal years ended March 31, 2014 and 2015, we made provisions for LAT in the amount of HK$1,270.3 million and HK$1,213.7 million, respectively. For the fiscal year ended March 31, 2016, we had a reversal of provision of HK$23.9 million.

The method of calculating LAT liability may differ for a subsidiary from year to year depending on the application made by such subsidiary and approvals granted by the relevant government authorities. See "Risk Factors — Risks Relating to Our Business and Our Industry — Sales of our properties are subject to land appreciation tax and income tax."

### *Economic and Other Conditions in the PRC*

The trade center market is sensitive to broader economic developments. The economic growth China has experienced over the past two decades has led to growth in both wholesale trade aimed at large-scale industrial and commercial purchasers and retail trade aimed at individual consumers, which has facilitated the development of trade centers where merchant wholesalers and retailers can sell goods to purchasers. Over the last two years, China's economy experienced a slowdown in GDP growth rate, affecting consumer and business spending generally, including trade among domestic and international suppliers, manufacturers and distributors of raw materials and finished goods, which form our primary customer base, as well as the demand for, and prices of, real estate properties. During the fiscal year ended March 31, 2016, the PRC government introduced measures to reduce the housing inventory and promote rational consumption, along with easing monetary policies. These measures have led to positive development in the residential property market.

Our continued growth will, to a certain extent, depend on the continued development of trade among industrial and commercial purchasers and the growth in size and purchasing power of the middle class in China. China South City Shenzhen is located in Guangdong Province and our other trade centers under development are located in the provinces of Jiangxi, Shaanxi, Heilongjiang, Henan and Anhui, the Guangxi Zhuang Autonomous Region and Chongqing municipality. The real estate and logistics markets in these regions are also affected by a number of other macroeconomic factors, including the level of interest rates, the exchange rate of the Renminbi and the PRC political, economic and regulatory environment.

### *Regulatory Environment*

Our results of operations have been, and will continue to be, affected by the regulatory environment in the PRC, including:

- any changes in the PRC with respect to land acquisition, property development and property developer policies, tax policies, planning, zoning and land use rights policies and building design and construction regulations; and

- the availability of project and mortgage financing, interest rates and regulations affecting the transfer of completed properties.

For further information on the regulatory environment in the PRC, see "Regulation."

In response to concerns over the increase in property investment and the overheating of the property sector in the PRC, the PRC government has introduced policies to restrict development in the property sector. From time to time, the PRC government adjusts or introduces macroeconomic control policies to encourage or restrict development in the private property sector by regulating land grants, land utilization, pre-sales of properties, bank financing and taxation. Measures taken by the PRC government to control money supply and credit availability also have a direct impact on our business and results of operations. The PRC government may introduce initiatives which may affect our and our customers' access to capital and the means by which we may finance property development. See "Risk Factors - Risks Relating to Our Business and Our Industry — Our operations are subject to extensive governmental regulation, and we are susceptible to changes in policies related to the real estate and logistics markets in China."

### *Pre-sales*

Proceeds from pre-sales of properties under development constitute a source of our operating cash inflow during our project development process. PRC law allows us to pre-sell properties before their completion upon satisfaction of certain conditions and requires us to use the specific pre-sale proceeds to develop the project that has been pre-sold. The amount and timing of cash received from pre-sales are affected by a number of factors, including any restrictions and conditions in our pre-sale permits issued by, and land use contracts entered into with, local government authorities. Pursuant to certain project and land related contracts and documents, some of the land we have acquired or may acquire in the future has or may have sales restrictions on properties built on it. For example, the saleable area of trade centers of China South City Shenzhen is limited to 30% of the total buildable GFA of properties built on the relevant parcels of land. The saleable area of trade centers and logistics facilities built on certain parcels of land acquired by China South City Nanchang and China South City Nanning in 2010 are limited to 60% of the relevant total buildable GFA. The saleable area of trade centers built by China South City Hefei and China South City Chongqing are limited to 50% of their relevant total buildable GFA. The saleable area of trade centers of Phase One and future phases of China South City Zhengzhou are limited to 60% and 50% respectively of its relevant total buildable GFA. According to our business plan, we intend to hold not less than 50% of trade centers and commercial facilities for leasing and self-use, therefore we do not believe the relevant sales restrictions will have a significant impact to the Group. Other factors include the permitted timing and other restrictions on pre-sales imposed by relevant PRC laws and regulations, market demand, and the number of our properties that are available for pre-sale. Any modification of the relevant pre-sale permits and land use contracts, or any restriction on our ability to engage in the pre-sales of our properties, could result in a reduced cash inflow, which could increase our reliance on external financing and increase our finance costs, and accordingly, could have an adverse effect on our ability to finance our continuing property developments and our results of operations. See "Risk Factors — Risks Relating to Our Business and Our Industry — Our revenues and revenue mix vary significantly based upon the completion dates of our projects and prevailing market conditions."

### *Demand for Properties in China*

Our results of operations and cash flows also vary depending on the market demand at the time we sell or rent our completed properties, the rental and occupancy rates of our investment properties and the sales prices for sold properties. The rental rates, sales prices and occupancy levels of our property developments are dependent on market prices in the local market, which depend on local demand and supply conditions, competitive conditions and general macroeconomic conditions in the PRC, including GDP growth rates, interest rates, inflation rates and unemployment rates.

## Critical Accounting Policies

We have identified accounting policies which involve subjective assumptions and estimates as well as complex judgments relating to certain accounting items. We set forth below those accounting policies that we believe involve the most significant estimates and judgments used in the preparation of our financial statements.

Our significant accounting policies, which are important for an understanding of our financial condition and results of operations, are set forth in detail in our audited consolidated financial statements included in this offering memorandum.

### *Revenue Recognition*

We recognize revenue from the sale of properties in our income statement when the significant risks and rewards of ownership have been transferred to the buyer. We consider the significant risks and rewards of ownership to have been transferred when the construction of properties is completed, the properties are delivered to the buyers pursuant to the sales agreement and the collectibility of the related receivables is reasonably assured. We include deposits received on properties sold prior to the date of revenue recognition, including pre-sale proceeds, in the statement of financial position as trade and other payables.

We recognize rental income in the period in which the properties are leased on a straight-line basis over the lease term. Any rent-free period offered as an incentive to our trade center occupants is amortized over the term of the related lease agreements.

Because the building ownership certificates granted to us for certain residential and office buildings in China South City Shenzhen restrict the transfer of the underlying property, we have entered into lease agreements with occupants of these units. However, because the lease terms will last in duration for the major part of the economic life of the units and the lease agreements with occupants of these units transfer to the occupants substantially all the risks and rewards incidental to ownership, we treat the leases for accounting purposes as finance leases in accordance with the current accounting standards in Hong Kong. We recognize revenue from these units once the following criteria are satisfied: (1) construction is completed; (2) construction completion registration procedures are completed; (3) delivery is made to the occupants pursuant to the finance lease agreement; and (4) the collectibility of the related receivables is reasonably assured. See “Business — Purchaser and Tenant Financing.”

*Deferred Tax*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that taxable profit will be available against which these deductible temporary differences can be utilized. Deferred tax assets and liabilities are determined at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

*Land Appreciation Tax*

Under PRC tax laws and regulations, our properties developed for sale are subject to LAT. We have calculated and accrued all LAT payable on our property sales in accordance with the progressive rates specified in relevant tax laws, including the LAT Notice. All income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to land appreciation tax at progressive rates ranging from 30% to 60% of the appreciation value as defined in the relevant tax laws. LAT provisions represent provisions for the estimated LAT payable in relation to our properties sold during a period. We estimate and make provisions for the amount of LAT payable based on our own calculations in accordance with our understanding of the relevant laws and regulations. Our estimate of LAT provisions requires us to exercise significant judgment with respect to the appreciation of land value, total proceeds derived from the sale of projects and the allowability of deductible items for income tax purposes. Our profit in the relevant periods will be affected if the ultimate tax determination differs from the amounts that were initially recorded. In addition, any disagreements with the tax authorities could result in additional taxes, and possibly, penalties.

*Valuation of Properties*

In accordance with Hong Kong Accounting Standard 40 "Investment Properties" issued by the Hong Kong Institute of Certified Public Accountants, investment properties may be recognized by using either the fair value model or the cost model. We state our investment properties at their fair value as non-current assets in our statement of financial position on the basis of valuations by a qualified independent professional valuer. We provide the independent professional valuer with various information including relevant data pertaining to the leases existing on our investment properties for the valuer to use as a basis for valuation purposes. See "— Factors Affecting Our Results of Operations - Valuation of Our Investment Properties" for more information on the valuation of our investment properties.

*Properties held for sale and held for finance lease*

Properties held for sale includes completed properties held for sale and properties under development expected to be completed within normal operating cycle. Properties held for sale and held for finance lease are stated at the lower of cost and net realisable value. Cost includes land cost, all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to the prevailing market prices, on an individual property basis.

Properties under development are stated at the lower of cost and net realisable value. Cost comprises the land costs, construction costs, capitalised borrowing costs and other cost directly attributed to such properties during the period of construction.

Properties under development are initially classified as non-current assets and transferred to current assets under the category of properties held for sale when the construction of the relevant properties commences and the construction period of the relevant property development project is expected to complete within normal operating cycle.

## Description of Components of Results of Operations

### *Revenue*

We generate revenue from: (1) sales of our trade center units and residential properties; (2) leasing of residential units and office units, which we characterize as finance lease income; and (3) recurring income which consists of (a) rental income from leases of trade center units, commercial and other facilities; (b) property management services; (c) E-commerce services and (d) other revenue which consist of income from the provision of logistics and warehousing services, outlet operations and other services.

The following table sets forth a breakdown of our revenue for the periods indicated.

| | Fiscal Year Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | 2015 | | 2016 | |
| | HK$ | % | HK$ | % | HK$ | % |
| | (in thousands, except for percentages) | | | | | |
| Sale of properties | 12,534,980 | 93.1 | 8,190,793 | 83.9 | 4,164,135 | 67.9 |
| Sales of trade center units | 11,778,160 | 87.5 | 6,836,963 | 70.1 | 2,998,814 | 48.9 |
| Sales of residential properties | 756,820 | 5.6 | 1,353,830 | 13.9 | 1,165,321 | 19.0 |
| Finance lease income | 277,603 | 2.1 | 463,378 | 4.7 | 551,568 | 9.0 |
| Rental income | 304,866 | 2.3 | 573,895 | 5.9 | 681,314 | 11.1 |
| Property management service income | 67,074 | 0.5 | 133,321 | 1.4 | 247,721 | 4.0 |
| E-commerce income | 189,128 | 1.4 | 201,806 | 2.1 | 202,184 | 3.3 |
| Other revenue | 94,671 | 0.6 | 194,574 | 2.0 | 289,340 | 4.7 |
| Total | 13,468,322 | 100.0 | 9,757,767 | 100.0 | 6,136,262 | 100.0 |

### *Sale of Properties*

Sale of properties represents revenue from the sales of our trade center units in China South City Shenzhen, Nanchang, Nanning, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing and sales of residential properties in China South City Nanchang, Nanning and Hefei.

The following tables set forth a breakdown of our revenues from sale of properties by project for the periods indicated.

| | Average Selling Price[1] | | | GFA sold | | | Sales Revenue[2] | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fiscal Year ended March 31, | | | | | | | | |
| | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 |
| | (HK$/sq.m.) | | | (sq.m.) | | | (HK$ in millions) | | |
| China South City Shenzhen | 24,700 | 24,400 | 24,600 | 8,000 | 5,900 | 4,900 | 187.8 | 135.5 | 113.8 |
| China South City Nanchang | | | | | | | | | |
| Trade center units | 15,900 | 17,300 | 21,600 | 24,200 | 63,400 | 100 | 361.8 | 1,034.5 | 2.9 |
| Residential properties | 7,800 | 8,200 | 8,000 | 2,000 | 104,600 | 26,500 | 14.2 | 805.7 | 197.4 |
| China South City Nanning | | | | | | | | | |
| Trade center units | 17,700 | 21,000 | 24,300 | 13,300 | 8,600 | 1,800 | 220.9 | 169.6 | 34.5 |
| Residential properties | 7,100 | 7,400 | 6,800 | 110,300 | 78,500 | 57,200 | 742.6 | 548.1 | 364.8 |
| China South City Xi'an | 9,300 | 8,600 | 6,400 | 286,700 | 43,200 | 94,600 | 2,512.7 | 351.0 | 568.3 |
| China South City Harbin | – | 7,700 | 10,600 | – | 225,400 | 4,900 | – | 1,648.4 | 49.3 |
| China South City Zhengzhou | 8,500 | 7,700 | 9,400 | 534,500 | 368,000 | 131,400 | 4,298.5 | 2,669.9 | 1,168.3 |
| China South City Hefei | | | | | | | | | |
| Trade center units | 7,000 | 9,300 | 6,500 | 638,000 | 53,100 | 7,600 | 4,196.5 | 468.8 | 47.2 |
| Residential properties | – | – | 5,600 | – | – | 113,300 | – | – | 603.1 |
| China South City Chongqing | – | 7,700 | 6,800 | – | 49,200 | 157,100 | – | 359.3 | 1,014.5 |
| Total | N/A | N/A | N/A | 1,617,000 | 999,900 | 599,400 | 12,535.0 | 8,190.8 | 4,164.1 |

(1) Prior to deduction of business tax

(2) Net of business tax

*Finance Lease Income*

Finance lease income represents revenue from the lease arrangements for our residential units and office units. Occupants make their rental payments for the residential units and office units at the beginning of the lease term, either in the form of a lump-sum payment or with an initial deposit followed by payment of the outstanding balance within two months of the payment of the initial deposit. We include the revenue from our residential and office units in the income statement and the related construction costs are accounted for as cost of properties under finance lease in the income statement.

*Recurring Income*

Rental Income

Rental income mainly represents revenue from the rental of our trade center units and supporting commercial facilities in China South City Shenzhen and HOBA Furnishing. These properties also include trade center units sold and subsequently leased by us to third parties under agreements with the purchasers of these units. Under these arrangements, we provide purchase price discounts to buyers of trade center units who choose not to occupy their units but, instead, allow us to lease out their units to third parties for an agreed term, while we keep the rental income generated thereby. We calculate rental income based on the effective rental rate multiplied by leased GFA. We amortize rental income on a straight-line basis over the term of the lease. We expect our rental income to gradually increase in the coming years as we launch trial operations for each completed phase of our projects.

Property Management Service Income

Property management service income represents revenue from the provision of property management services, such as security, cleaning, repair and maintenance services, through our wholly owned subsidiary Shenzhen First Asia Pacific, to our occupants. We expect our property management income to further increase in coming years as we launch trial operations for each completed phase of our projects.

E-commerce Income

E-commerce income represents revenue from the provision of our E-commerce services to the occupants at our projects. Through our online platform, available at CSC86.com, we provide trade center shop operators and SMEs in the related industries a platform to facilitate trading. Our online platforms enable our trade center shops to benefit from the combined advantages of physical stores and virtual shops for both business-to-business and business-to-customer trading.

Other Revenue

Other revenue represents income from the provision of logistics and warehousing services, outlet operations and other services. Our logistics services and facilities consist of a network of warehouses and one-stop integrated inbound and outbound logistics facilities. We aim to extend our warehouse and freight forward services to online management platforms and supply chain management services in order to build a logistics management platform that spans across our projects. We build and operate outlets featuring global brands and products to attract visitors.

***Cost of Sales***

Cost of sales primarily represents the costs of properties sold and properties held for finance lease, costs of services provided and unallocated cost of sales, which includes rental expenses. The principal component of cost of sales is the cost of properties sold.

The following table sets forth a breakdown of our cost of sales for the periods indicated.

| | Fiscal Year Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | 2015 | | 2016 | |
| | HK$ | % | HK$ | % | HK$ | % |
| | (in thousands, except for percentages) | | | | | |
| Cost of properties sold[(1)] | 6,409,079 | 92.6 | 3,563,495 | 77.8 | 1,984,613 | 62.5 |
| Cost of properties held for finance lease | 110,171 | 1.6 | 215,251 | 4.7 | 242,887 | 7.6 |
| Cost of services provided and unallocated cost of sales | 401,908 | 5.8 | 803,491 | 17.5 | 949,709 | 29.9 |
| Total | 6,921,158 | 100.0 | 4,582,237 | 100.0 | 3,177,209 | 100.0 |

(1) Includes construction costs and related costs, such as land use rights costs and capitalized expenses.

*Cost of Properties Sold*

Cost of properties sold includes costs we have incurred directly in the course of our property development activities. These consist primarily of: (1) construction costs; and (2) related costs, such as land use rights costs and capitalized expenses.

*Construction Costs.* We outsource the construction of all of our projects to third party contractors, whom we select through a competitive tender process. Our construction contracts provide for payments which cover substantially all labor, materials, fittings and equipment costs, subject to re-negotiation for design changes requested by our occupants during construction or changes in government-regulated steel prices. Our construction costs consist primarily of payments to our third party contractors, which are paid over the construction period based on specified milestones. Our construction costs also include land leveling expenses, surveying expenses and design fees.

*Related Costs.* Land use rights costs include the land grant fees we pay to acquire land use rights for our property development site. Land grant fees are the payments to the relevant land bureau or the relevant provincial or local government for the right to occupy, use and develop a particular parcel of land and to market the units or other projects developed on such land. We acquired our land for China South City Shenzhen through negotiations with local government authorities in accordance with local regulations. Our land use rights costs for China South City Shenzhen are fixed under our master agreement and the corresponding supplementary agreements with the local government authorities. We have acquired a portion of the land for our properties under development in Nanchang, Nanning, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing. Our master agreements and the corresponding supplementary agreements with local government authorities for these projects require that the land use right costs for these properties be determined through competitive bidding at public tender, auction or listing for sale.

*Cost of Properties Held for Finance Lease*

Cost of properties held for finance lease includes costs we have incurred directly in the course of our property development activities related to our residential units and office units. These consist of land use rights costs, construction costs and capitalized expenses.

*Cost of Services Provided and Unallocated Cost of Sales*

Cost of services provided and unallocated cost of sales include costs associated with property management services, logistics and warehousing services, outlet operations, rental costs that we incurred in leasing trade center units and other services.

### *Other Income and Gains/(Losses)*

Other income and gains/(losses) consists primarily of interest income from banks, loan and finance lease receivables, government development grants and gains or losses on held for trading investments at fair value through profit or loss. We have received government development grants from the relevant government authorities to foster and support the development of our projects in China. These government development grants amounted to HK$10.3 million, HK$56.5 million and HK$1,001.1 million for the fiscal years ended March 31, 2014, 2015 and 2016, respectively.

### *Change in Fair Value of Investment Properties*

We engage a qualified independent property valuer on an annual basis to conduct a valuation of our investment properties. See "— Factors Affecting Our Results of Operations — Valuation of Our Investment Properties."

### *Selling and Distribution Expenses*

Our selling and distribution expenses include:

- staff salaries (including commissions), employee benefit expenses and office expenses for sales and marketing personnel;
- advertising fees associated with advertisements placed in various mass media outlets, and design and promotion expenses, which include print advertisement costs, marketing materials, billboard and other display advertising costs;
- depreciation and amortization of facilities used by marketing personnel; and
- miscellaneous expenses, including fees associated with sponsoring conferences, business related travel expenses, referral fees paid to occupants who introduce new occupants to our trade centers and organizational membership fees for our selling and marketing staff.

### *Administrative Expenses*

Administrative expenses principally include:

- staff salaries and employee benefit expenses for our management, administrative, finance and accounting staff, employee share option benefits and directors fees;
- depreciation of fixed assets, including office buildings and self-use properties, but excluding investment properties and properties under development;
- consultancy fees paid in relation to corporate strategy, marketing and promotion, property management and property development and legal and professional fees;
- office expenses;
- water and electricity fees;
- business development expenses and promotional activities; and
- miscellaneous expenses, such as rental of residential quarters, motor vehicles and shuttle buses for administrative staff, utilities expenses, property insurance expenses and travel expenses.

### *Other Expenses*

Other expenses consist primarily of provisions for/(reversal of provision for) trade receivables and loss on redemption of senior notes.

### *Finance Costs*

Our finance costs consist primarily of interest paid on bank and other borrowings. Interest rates on our bank borrowings, most of which are granted by PRC commercial banks and denominated in Renminbi, are typically linked to PBOC rates. Interest rates on our other borrowings, including the issuances of various notes and bonds, are determined by market conditions at the time of such borrowing and issuance.

We capitalize certain of our interest expenses based on the purposes for which the underlying borrowings or proceeds from offerings of debt securities are used. Under HKFRS, we are permitted to capitalize interest expenses related to debt incurred for construction costs directly attributable to the acquisition, construction or production of qualifying assets, and we are required to cease capitalization of such costs when the assets are substantially ready for their intended use or sale. Because all or a portion of our proceeds from the medium-term notes, the corporate bonds, the domestic company bonds, the convertible notes, the 2012 Notes and the 2014 Notes were used for the development and construction of our properties, we capitalized all related interest expenses. For the fiscal years ended March 31, 2014, 2015 and 2016, bank borrowings used for general working capital purposes were recorded as interest expenses in our income statement.

### *Share of Results of Joint Ventures*

Share of results of joint ventures consist primarily of profit or loss, as applicable, from China South Royal Restaurant (Shenzhen) in which we held 50.5% interest until June 16, 2015.

### *Share of Results of Associates*

Share of results of associates primarily includes profit or loss, as applicable, of China South Intimex and Harbin Huayilong Fur Market, which we hold a 30% interest and a 25% interest, respectively. China South Intimex engages in website development, the maintenance and development of software, the provision of consultancy services and trading of E-commerce hardware and software. Harbin Huayilong Fur Market engages in property leasing.

### *Taxation*

We and our subsidiaries are incorporated in different jurisdictions, with different taxation requirements.

The following table sets forth the major components of income taxes for the periods indicated.

| | **Fiscal Year Ended March 31,** | | | | | |
|---|---|---|---|---|---|---|
| | **2014** | | **2015** | | **2016** | |
| | **HK$** | **%** | **HK$** | **%** | **HK$** | **%** |
| | **(in thousands, except for percentages)** | | | | | |
| Enterprise income tax | 1,239,428 | 50.1 | 819,254 | 38.2 | 1,011,480 | 73.8 |
| Land appreciation tax | 1,270,280 | 51.4 | 1,213,663 | 56.6 | (23,865) | (1.7) |
| Deferred PRC tax | (37,230) | (1.5) | 111,792 | 5.2 | 382,842 | 27.9 |
| Total income tax | 2,472,478 | 100.0 | 2,144,709 | 100.0 | 1,370,457 | 100.0 |

*Enterprise Income Tax*

*PRC.* Our subsidiaries incorporated in the PRC are subject to PRC Enterprise Income Tax ("EIT") on their taxable income as reported in the PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. Prior to the effectiveness of the EIT law, on January 1, 2008, domestic companies were generally subject to EIT at a statutory rate of 33%.

The new EIT law imposes a uniform EIT rate of 25% on all domestic enterprises and foreign invested enterprises unless they qualify under certain exceptions. The new EIT law and related regulations provide a five-year transition period for certain entities which were established before March 16, 2007 and enjoyed a preferential EIT rate of less than 25% under the old EIT law to gradually increase their rates to 25%. Enterprises that were entitled to tax holidays for a fixed term may continue to enjoy such treatment until the tax holidays expire.

*British Virgin Islands, the Cayman Islands and Hong Kong.* We are incorporated in Hong Kong, and we have subsidiaries incorporated in the British Virgin Islands, the Cayman Islands and Hong Kong as investment holding companies, certain of which hold interests in our PRC operating entities. We are not subject to tax in the British Virgin Islands or the Cayman Islands on income or capital gains, and dividend payments are not subject to withholding tax in the British Virgin Islands or the Cayman Islands. Our subsidiaries incorporated in Hong Kong are not subject to Hong Kong corporate income tax because we have no assessable profits in Hong Kong.

*Land Appreciation Tax*

LAT in the amount of HK$1,270.3 million and HK$1,213.7 million for the fiscal years ended March 31, 2014 and 2015, respectively, were charged to our consolidated income statements. LAT in the amount of HK$23.9 million for the fiscal year ended March 31, 2016 was credited to our consolidated income statements. See "— Factors Affecting Our Results of Operations — Land Appreciation Tax" and "— Critical Accounting Policies — Land Appreciation Tax."

*Deferred Tax*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in our financial statements and the corresponding tax basis. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for deductible temporary differences, carry-forward of unused tax credits and unused tax losses. Deferred tax assets and liabilities are determined at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

A reconciliation of deferred tax liabilities and tax assets to deferred PRC EIT is provided in the table below for the periods indicated.

| | **Fiscal Year Ended March 31,** | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | **(HK$ in thousands)** | | |
| Deferred PRC corporate income tax[1] | (37,230) | 111,792 | 382,842 |
| Deferred tax charged/(credited) to the income statement during the year[1] | | | |
| Deferred tax liabilities | 417,805 | 549,373 | 1,119,694 |
| Deferred tax assets | (455,035) | (437,581) | (736,852) |
| | (37,230) | 111,792 | 382,842 |

(1) For more information, please refer to related notes in the audited consolidated financial statements for the fiscal years ended March 31, 2014, 2015 and 2016 included in this offering memorandum.

***Non-controlling Interests***

Non-controlling interests represent our profit or loss after taxation that is attributable to the other shareholders of our non-wholly owned subsidiaries.

**Consolidated Results of Operations**

The following is a discussion of our consolidated results of operations for the fiscal years ended March 31, 2014, 2015 and 2016.

***Fiscal Year Ended March 31, 2016 Compared with Fiscal Year Ended March 31, 2015***

*Revenue*

Revenue decreased by HK$3,621.5 million, or 37.1%, from HK$9,757.8 million for the fiscal year ended March 31, 2015 to HK$6,136.3 million for the fiscal year ended March 31, 2016. This decrease was mainly attributable to the continued general slow down in the PRC economy and our decrease in Contracted Sales and delivery of completed properties during the fiscal year ended March 31, 2016, partially offset by the increase in our recurring income from approximately HK$1,103.6 million for the fiscal year ended March 31, 2015 to approximately HK$1,420.6 million for the fiscal year ended March 31, 2016.

*Sale of properties*. Revenue from sale of properties decreased by HK$4,026.7 million, or 49.2%, from HK$8,190.8 million for the fiscal year ended March 31, 2015 to HK$4,164.1 million for the fiscal year ended March 31, 2016. This decrease was mainly attributable to the slow down in the general PRC economy and our decrease in Contracted Sales and delivery of completed properties during the fiscal year ended March 31, 2016.

*Finance lease income*. Finance lease income increased by HK$88.2 million, or 19.0%, from HK$463.4 million for the fiscal year ended March 31, 2015 to HK$551.6 million for the fiscal year ended March 31, 2016. This increase was primarily due to the increase in finance leases for offices in China South City Shenzhen during the fiscal year ended March 31, 2016. We entered into finance lease arrangements with occupants at those properties for approximately 49,400 sq.m. for the fiscal year ended March 31, 2016, compared to approximately 43,500 sq.m. for the fiscal year ended March 31, 2015, at an average price of approximately HK$11,800 per sq.m. for the fiscal year ended March 31, 2016, compared to approximately HK$11,300 per sq.m. for the fiscal year ended March 31, 2015.

*Rental income*. Rental income increased by HK$107.4 million, or 18.7%, from HK$573.9 million for the fiscal year ended March 31, 2015 to HK$681.3 million for the fiscal year ended March 31, 2016. This increase was primarily due to the continued increase in rental income contribution from our trade center units at China South City Shenzhen, rental income contribution from HOBA Furnishing and the commencement of certain rental units at other projects.

*Property management service income*. Property management service income increased by HK$114.4 million, or 85.8%, from HK$133.3 million for the fiscal year ended March 31, 2015 to HK$247.7 million for the fiscal year ended March 31, 2016. This increase was primarily due to an increase in areas of properties under management.

*E-commerce income.* E-commerce income remained relatively stable and increased slightly from HK$201.8 million for the fiscal year ended March 31, 2015 to HK$202.2 million for the fiscal year ended March 31, 2016.

*Other revenue.* Other revenue increased by HK$94.7 million, or 48.7% from HK$194.6 million for the fiscal year ended March 31, 2015 to HK$289.3 million for the fiscal year ended March 31, 2016. This increase was mainly attributable to the continued growth of our outlet operations and logistics and warehousing services. As a result, income from our outlet operations increased by HK$44.4 million, or 48.1%, from HK$92.5 million for the fiscal year ended March 31, 2015 to HK$136.9 million for the fiscal year ended March 31, 2016. This increase was mainly due to the growth of our outlet center business and the increase in operating areas in both our established outlets as well as new outlets during the fiscal year ended March 31, 2016. Income from our logistics and warehousing services increased by HK$47.6 million, or 49.7%, from HK$95.8 million for the fiscal year ended March 31, 2015 to HK$143.4 million for the fiscal year ended March 31, 2016. This increase was mainly due to the increasing occupancy rate of our existing warehouse facilities and the addition of new warehouse facilities.

*Cost of Sales*

Cost of sales decreased by HK$1,405.0 million, or 30.7%, from HK$4,582.2 million for the fiscal year ended March 31, 2015 to HK$3,177.2 million for the fiscal year ended March 31, 2016, in line with the decrease in GFA of properties sold.

*Gross Profit*

As a result of the foregoing, gross profit decreased by HK$2,216.5 million, or 42.8%, from HK$5,175.6 million for the fiscal year ended March 31, 2015 to HK$2,959.1 million for the fiscal year ended March 31, 2016. Gross profit margin, or gross profit as a percentage of total revenue, decreased from 53.0% for the fiscal year ended March 31, 2015 to 48.2% for the fiscal year ended March 31, 2016, due to our change in product mix with a higher percentage of sale of residential properties which had a relatively lower profit margin compared to our trade center units.

*Other Income and Gains*

Other income and gains increased by HK$732.1 million, or 219.1%, from HK$334.1 million for the fiscal year ended March 31, 2015 to HK$1,066.2 million for the fiscal year ended March 31, 2016. This increase was mainly due to the government grants of HK$1,001.1 million for certain projects during the fiscal year ended March 31, 2016.

*Change in Fair Value of Investment Properties*

The change in fair value of investment properties was HK$2,398.5 million for the fiscal year ended March 31, 2015 compared to HK$3,232.7 million for the fiscal year ended March 31, 2016. The fair value gain was mainly contributed by the addition of new investment properties at our existing projects.

*Selling and Distribution Expenses*

Selling and distribution expenses increased by HK$142.7 million, or 19.8%, from HK$722.0 million for the fiscal year ended March 31, 2015 to HK$864.7 million for the fiscal year ended March 31, 2016. This increase was primarily due to (1) our increased advertising and promotion expenses related to the sale of properties and our outlet operations and HOBA Furnishing and (2) an increase in the incentive package for our sales and marketing team.

*Administrative Expenses*

Administrative expenses increased by HK$93.6 million, or 8.6%, from HK$1,083.6 million for the fiscal year ended March 31, 2015 to HK$1,177.2 million for the fiscal year ended March 31, 2016. This increase was primarily due to an increase in business activities as a result of trial operations in various projects.

*Finance Costs*

Finance costs decreased slightly by HK$6.2 million, or 3.7%, from HK$165.6 million for the fiscal year ended March 31, 2015 to HK$159.4 million for the fiscal year ended March 31, 2016, primarily due to a decrease in bank and other loans for general business purposes, with interest expenses recorded on our income statement, and a decrease in our weighted average financing cost from approximately 6.8% to 6.3% over the same period.

*Profit Before Tax*

As a result of the foregoing, profit before tax decreased by HK$955.3 million, or 16.3%, from HK$5,859.5 million for the fiscal year ended March 31, 2015 to HK$4,904.2 million for the fiscal year ended March 31, 2016.

*Income Tax Expenses*

Income tax expenses decreased by HK$774.2 million, or 36.1%, from HK$2,144.7 million for the fiscal year ended March 31, 2015 to HK$1,370.5 million for the fiscal year ended March 31, 2016. This decrease was in line with the decrease in our revenue for the fiscal year ended March 31, 2016.

*Profit for the Year*

As a result of the foregoing, profit for the year decreased by HK$181.0 million, or 4.9%, from HK$3,714.8 million for the fiscal year ended March 31, 2015 to HK$3,533.8 million for the fiscal year ended March 31, 2016.

***Fiscal Year Ended March 31, 2015 Compared with Fiscal Year Ended March 31, 2014***

*Revenue*

Revenue decreased by HK$3,710.5 million, or 27.6%, from HK$13,468.3 million for the fiscal year ended March 31, 2014 to HK$9,757.8 million for the fiscal year ended March 31, 2015. This decrease was primarily due to the general slow down in the PRC economy and a decrease in GFA sold during the fiscal year ended March 31, 2015.

*Sale of properties.* Revenue from sale of properties decreased by HK$4,344.2 million, or 34.7%, from HK$12,535.0 million for the fiscal year ended March 31, 2014 to HK$8,190.8 million for the fiscal year ended March 31, 2015. This decrease was primarily due to the general slow down in the PRC economy and a decrease in GFA sold during the fiscal year ended March 31, 2015.

*Finance lease income.* Finance lease income increased by HK$185.8 million, or 66.9%, from HK$277.6 million for the fiscal year ended March 31, 2014 to HK$463.4 million for the fiscal year ended March 31, 2015, primarily attributable to an increase in finance lease contracts for office and residential units. We entered into finance lease arrangements with occupants for approximately 43,500 sq.m. for the fiscal year ended March 31, 2015, compared to approximately 26,200 sq.m. for the fiscal year ended March 31, 2014, at an average price of approximately HK$11,300 per sq.m. for the fiscal year ended March 31, 2015, compared to approximately HK$11,200 per sq.m. for the fiscal year ended March 31, 2014.

*Rental income*. Rental income increased by HK$269.0 million, or 88.2%, from HK$304.9 million for the fiscal year ended March 31, 2014 to HK$573.9 million for the fiscal year ended March 31, 2015. This increase was primarily due to the continued increase in rental income contribution from our trade center units, rental income contribution from HOBA Furnishing and the commencement of certain trade center units for rent at certain projects.

*Property management service income.* Property management service income increased by HK$66.2 million, or 98.8%, from HK$67.1 million for the fiscal year ended March 31, 2014 to HK$133.3 million for the fiscal year ended March 31, 2015. This increase was primarily due to an increase in properties under management as a result of the higher occupancy rate of the trade center units and ancillary facilities and new occupancy at China South City Nanning, Nanchang, Xi'an and Zhengzhou which commenced trial operations in the fiscal year ended March 31, 2015.

*E-commerce income.* E-commerce income increased by HK$12.7 million, or 6.7%, from HK$189.1 million for the fiscal year ended March 31, 2014 to HK$201.8 million for the fiscal year ended March 31, 2015. This increase was primarily due to the commencement of our online membership program at China South City Zhengzhou. By joining the service, the occupants of China South City Zhengzhou enjoy a full range E-commerce services offered by our E-commerce platform, CSC86.com.

*Other revenue.* Other revenue increased by HK$99.9 million, or 105.5%, from HK$94.7 million for the fiscal year ended March 31, 2014 to HK$194.6 million for the fiscal year ended March 31, 2015. This increase was mainly attributable to the continued growth of our outlet operations and logistics and warehousing services. Income from our outlet operations increased by HK$23.8 million, or 34.6%, from HK$68.7 million for the fiscal year ended March 31, 2014 to HK$92.5 million for the fiscal year ended March 31, 2015. This increase was mainly due to the growth of our outlet center business and the increase in operating areas in both our established outlets as well as new outlets during the fiscal year ended March 31, 2015. Income from our logistics and warehousing services increased by HK$71.0 million, or 286.3%, from HK$24.8 million for the fiscal year ended March 31, 2014 to HK$95.8 million for the fiscal year ended March 31, 2015. This increase was mainly due to the increasing occupancy rate of our existing warehouse facilities and the addition of new warehouse facilities.

*Cost of Sales*

Cost of sales decreased by HK$2,339.0 million, or 33.8%, from HK$6,921.2 million for the fiscal year ended March 31, 2014 to HK$4,582.2 million for the fiscal year ended March 31, 2015, in line with the decrease in GFA of properties sold.

*Gross Profit*

As a result of the foregoing, gross profit decreased by HK$1,371.6 million, or 21.0%, from HK$6,547.2 million for the fiscal year ended March 31, 2014 to HK$5,175.6 million for the fiscal year ended March 31, 2015. Gross profit margin, or gross profit as a percentage of total revenue, increased from 48.6% for the fiscal year ended March 31, 2014 to 53.0% for the fiscal year ended March 31, 2015. This increase was primarily due to (1) our recurring income, which has a higher profit margin, accounting for a higher percentage of our revenue and (2) the receipt of government development grants for certain projects.

*Other Income and Gains*

Other income and gains increased by HK$146.3 million, or 77.9%, from HK$187.8 million for the fiscal year ended March 31, 2014 to HK$334.1 million for the fiscal year ended March 31, 2015. This increase was mainly due to the fair value gain of the option granted to Tencent to subscribe for our shares, which was treated as a derivative financial instrument, amounting to HK$151.9 million, as compared to HK$103.3 million in the prior fiscal year, and the increase in bank interest income for the fiscal year ended March 31, 2015.

*Change in Fair Value of Investment Properties*

The change in fair value of investment properties was HK$1,266.3 million for the fiscal year ended March 31, 2014 compared to HK$2,398.5 million for the fiscal year ended March 31, 2015. The fair value gain was mainly contributed by the addition of new investment properties at China South City Shenzhen and the stable growth in value of our existing properties at China South City Shenzhen and Harbin.

*Selling and Distribution Expenses*

Selling and distribution expenses increased by HK$140.8 million, or 24.2% from HK$581.2 million for the fiscal year ended March 31, 2014 to HK$722.0 million for the fiscal year ended March 31, 2015. This increase was mainly attributable to the increase in marketing and advertising expenses for China South City Zhenghou, Hefei and Chongqing, which launched more sales and marketing activities, and the increase in staff costs as a result of the expansion of our sales and marketing team during the fiscal year ended March 31, 2015.

*Administrative Expenses*

Administrative expenses increased by HK$220.6 million, or 25.6%, from HK$863.0 million for the fiscal year ended March 31, 2014 to HK$1,083.6 million for the fiscal year ended March 31, 2015. This increase was primarily due to an increase in business activities as a result of trial operations in various projects which caused us to expand our management team and increase our employee headcount.

*Finance Costs*

Finance costs increased by HK$12.7 million, or 8.3%, from HK$152.9 million for the fiscal year ended March 31, 2014 to HK$165.6 million for the fiscal year ended March 31, 2015, primarily due to an increase in new bank and other borrowings for general business purposes, with interest expenses recorded on our income statement.

*Profit Before Tax*

As a result of the foregoing, profit before tax decreased by HK$309.3 million, or 5.0%, from HK$6,168.8 million for the fiscal year ended March 31, 2014 to HK$5,859.5 million for the fiscal year ended March 31, 2015.

*Income Tax Expenses*

Income tax expenses decreased by HK$327.8 million, or 13.3%, from HK$2,472.5 million for the fiscal year ended March 31, 2014 to HK$2,144.7 million for the fiscal year ended March 31, 2015. This decrease was attributable to the decrease in current income tax expenses and land appreciation tax as a result of less income generated during the fiscal year ended March 31, 2015, offset by the increase in tax related to fair value gain on investment properties.

*Profit for the Year*

As a result of the foregoing, profit for the year increased by HK$18.4 million, or 0.5%, from HK$3,696.4 million for the fiscal year ended March 31, 2014 to HK$3,714.8 million for the fiscal year ended March 31, 2015.

**Liquidity and Capital Resources**

Our primary uses of cash are to pay for construction costs, land costs (principally the payment of land grant fees), infrastructure costs, and consulting fees paid to architects and designers, as well as to service our indebtedness and fund working capital and normal recurring expenses. For the fiscal years ended March 31, 2014, 2015 and 2016, we financed our operations primarily through internally generated funds, bank borrowings, proceeds from the offerings of the short-term notes, the medium-term notes, the corporate bonds, the domestic company bonds, convertible notes, the 2012 Notes and the 2014 Notes.

As of March 31, 2016, we had HK$11,686.7 million in cash and cash equivalents and restricted cash and had unused bank facilities available in the amount of approximately HK$5,956.3 million. We believe that our current levels of cash and cash equivalents, cash flows from operations and available bank facilities, combined with the net proceeds from this offering, will be sufficient to meet our anticipated cash needs for at least the next 12 months. However, we may need additional resources in the future if we experience changed business conditions or other developments. We may also need additional cash resources in the future if we find and wish to pursue opportunities for investment, acquisition, strategic cooperation or other similar actions, beyond our currently budgeted intentions with respect to the continued development of our projects. If we determine that our cash requirements exceed our amounts of cash and cash equivalents on hand, we may seek to issue additional debt or equity securities or obtain a bank facility. It is possible that, when we need additional cash resources, financing will only be available to us in amounts or on terms that would not be acceptable to us or financing will not be available at all.

***Cash Flows***

The following table sets forth selected cash flow data from our consolidated cash flow statements for the periods indicated.

| | **Fiscal Year Ended March 31,** | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | | **(HK$ in thousands)** | |
| Cash flows provided by operating activities | 2,702,900 | 1,386,810 | 1,187,337 |
| Cash flows used in investing activities | (2,728,561) | (12,344,370) | (5,468,437) |
| Cash flows provided by financing activities | 5,182,181 | 6,812,648 | 6,558,757 |
| Net increase/(decrease) in cash and cash equivalents | 5,156,520 | (4,144,912) | 2,277,657 |
| Cash and cash equivalents at beginning of period | 6,264,714 | 11,303,044 | 7,253,469 |
| Effect of foreign exchange rate changes on cash and cash equivalents | (118,190) | 95,337 | (203,319) |
| Cash and cash equivalents at end of period | 11,303,044 | 7,253,469 | 9,327,807 |

*Restriction on Cash Transfers from our Subsidiaries*

We conduct all of our business through our subsidiaries, as well as our joint ventures and associates, incorporated in the PRC. We rely on dividends paid by our subsidiaries and our joint ventures and associates for our liquidity requirements, including the funds necessary to service any debt we may incur, including the short-term notes, the medium-term notes, the corporate bonds, the domestic company bonds, the 2012 Notes, the 2014 Notes, the convertible notes and to pay our operating expenses. PRC law restricts the ability of our subsidiaries, joint ventures and associates to transfer funds to us in the form of cash dividends, loans or advances.

For more information on our bank borrowings and other indebtedness, see "Description of Other Material Indebtedness." For a discussion of legal restrictions on the ability of our subsidiaries, joint ventures and associates to transfer funds to us in the form of cash dividends, loans or advances, see "Regulation — Regulation of Foreign Currency Exchange and Dividend Distribution" and "Description of Other Material Indebtedness."

Furthermore, under regulations of SAFE, the Renminbi is not convertible into foreign currencies for capital account items, such as loans, repatriation of investments and investment outside of the PRC, unless the prior approval of SAFE is obtained and prior registration with SAFE is made. These restrictions have not historically had, and are not expected in the future to have, a material adverse impact on our ability to meet our financial requirements.

*Cash Flows Provided By Operating Activities*

We derive cash from operating activities principally from the sale of trade center units and ancillary facilities, finance lease income of leasing residential and commercial properties, and rental income received from trade center units retained as investment properties, warehouses and supporting commercial facilities. We use cash generated from operating activities principally for investments in properties under development.

For the fiscal year ended March 31, 2016, net cash provided by operating activities was HK$1,187.3 million, which consisted of operating cash inflow before working capital of HK$2,055.4 million and working capital cash outflow of HK$868.1 million. Net working capital cash outflow consisted of overseas taxes paid of HK$1,481.9 million, an increase in restricted cash of HK$993.9 million, a decrease in trade and other payables of HK$599.3 million and an increase in prepayments, deposits and other receivables of HK$152.5 million, partially offset by a decrease in properties held for sale of HK$1,793.1 million, a decrease in properties held for finance lease of HK$234.0 million and a decrease in trade receivables of HK$328.1 million.

For the fiscal year ended March 31, 2015, net cash provided by operating activities was HK$1,386.8 million, which consisted of operating cash inflow before working capital of HK$3,591.4 million and working capital cash outflow of HK$2,204.6 million. Net working capital cash outflow primarily consisted of an increase in properties held for sale of HK$2,841.9 million and overseas taxes paid of HK$1,217.4 million, partially offset by a decrease in trade receivables of HK$1,192.4 million and an increase in trade and other payables of HK$708.1 million.

For the fiscal year ended March 31, 2014, net cash provided by operating activities was HK$2,702.9 million, which consisted of operating cash inflow before working capital of HK$5,276.1 million and working capital cash outflow of HK$2,573.2 million. Net working capital cash outflow consisted of an increase in properties held for sale of HK$3,730.0 million, an increase in trade receivables of HK$1,927.8 million, an increase in prepayments, deposits and other receivables of HK$303.7 million, an increase in restricted cash of HK$962.0 million and overseas tax paid of HK$837.6 million, partially offset by an increase in trade and other payables of HK$5,040.8 million.

*Cash Flow Used in Investing Activities*

For the fiscal year ended March 31, 2016, net cash used in investing activities was HK$5,468.4 million, which primarily consisted of cash outflows of HK$5,423.9 million for the development of Phase Three of China South City Shenzhen, and Phase One of China South City Nanchang, Nanning, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing.

For the fiscal year ended March 31, 2015, net cash used in investing activities was HK$12,344.4 million, which primarily consisted of cash outflows of HK$12,022.9 million for the development of China South City Shenzhen, Nanchang, Nanning, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing, HK$175.5 million relating to the investment of a 19.05% equity interest in Makepolo Inc. in September 2014, and HK$239.3 million related to the acquisition of non-controlling interests of China South City Xi'an as partially offset by a cash inflow of HK$139.3 million relating to proceeds from the disposal of the remainder of China South City Heyuan.

For the fiscal year ended March 31, 2014, net cash used in investing activities was HK$2,728.6 million, which primarily consisted of cash outflows of HK$3,255.4 million for the development of China South City Shenzhen, Nanchang, Nanning, Xi'an, Harbin, Zhengzhou and Hefei and HK$221.2 million relating to the acquisition of HOBA Furnishing as partially offset by cash inflows of HK$249.5 million relating to proceeds from a disposal of part of China South City Heyuan.

*Cash Flow From Financing Activities*

Our cash from financing activities since April 1, 2013 have primarily consisted of the proceeds from the 2014 Notes, the convertible notes, the short-term notes, the medium-term notes, the corporate bonds, the domestic company bonds and bank and other borrowings. Our cash used in financing activities has historically been used primarily for repayment of principal of and interest on our bank and other borrowings.

For the fiscal year ended March 31, 2016, net cash provided by financing activities was HK$6,558.8 million, which primarily consisted of new bank borrowings of HK$10,800.5 million, proceeds from the issue of medium-term notes of HK$2,415.7 million, proceeds from the issue of corporate bonds of HK$1,788.0 million, proceeds from the issue of short-term notes of HK$2,559.5 million and proceeds from issue of domestic company bonds of HK$3,582.5 million, partially offset by repayment of bank and other borrowings of HK$9,051.9 million, repayment of short-term notes of HK$2,698.7 million, dividend distributions of HK$1,120.7 million, interest paid of HK$990.4 million, payment of interest on 2012 Notes and 2014 Notes of HK$389.0 million, payment of interest on medium-term notes of HK$197.0 million and payment of interest on short-term notes of HK$136.0 million.

For the fiscal year ended March 31, 2015, net cash provided by financing activities was HK$6,812.6 million, which primarily consisted of new bank borrowings of HK$9,346.2 million, proceeds from the issue of medium-term notes of HK$2,483.6 million, proceeds from the issue of short-term notes of HK$2,750.9 million, proceeds from the exercise of Tencent call options of HK$822.5 million and proceeds from the exercise of share options of HK$390.2 million, partially offset by repayment of bank and other borrowings of HK$6,371.0 million, dividend distributions of HK$1,086.3 million, interest paid of HK$961.0 million, payment of interest on 2012 Notes and 2014 Notes of HK$389.0 million and payment for shares repurchased of HK$150.6 million.

For the fiscal year ended March 31, 2014, net cash provided by financing activities was HK$5,182.2 million, which primarily consisted of new bank borrowings of HK$8,025.9 million, proceeds from the issue of the 2014 Notes of HK$3,012.6 million, proceeds from the issue of the convertible notes of HK$972.1 million and proceeds from the issue of shares of HK$1,496.7 million to Tencent, partially offset by repayment of bank and other borrowings of HK$4,512.2 million, payment for the redemption of the 2011 Notes of HK$2,032.1 million, interest paid of HK$698.6 million, dividend distributions of HK$902.8 million and payment of interest on the 2011 Notes, the 2012 Notes and the 2014 Notes of HK$378.3 million.

**Indebtedness and Contingent Liabilities**

***Overview***

As of March 31, 2016, the total outstanding balance of the consolidated interest-bearing bank and other borrowings of the Company and its subsidiaries, including the short-term notes, the medium-term notes, the 2012 Notes, the 2014 Notes, the corporate bonds and the domestic company bonds, amounted to HK$33,808.6 million, of which HK$13,654.2 million was secured.

We also have certain commitments and contingent liabilities, consisting of commitments in respect of properties under development and guarantees provided to banks in respect of mortgage loans entered into by purchasers of our trade center units and residential properties, and bank loans entered into by occupants of our residential and commercial properties. The aggregate amount of these capital commitments and contingent liabilities was approximately HK$13,155.9 million as of March 31, 2016.

### *Short-Term Notes*

On October 17, 2014, China South International completed the issuance of the first tranche of the short-term notes of 2014 in the national interbank market in the PRC ("2014 First Tranche STN") with a total principal amount of RMB2.2 billion with a maturity period of 1 year and at an interest rate of 5.4% per annum. The proceeds were to be used for repaying part of the bank loans of our Group. The 2014 First Tranche STN have been repaid in October 2015.

On September 9, 2015, China South International completed the issuance of the first tranche of short-term notes of 2015 ("2015 First Tranche STN") with a total principal amount of RMB2.1 billion with a maturity period of 1 year and at an interest rate of 4.3% per annum, payable on September 9 in arrears, and will mature on September 9, 2016. The proceeds were to be used for replacement of bank borrowings of our Group.

### *Medium Term Notes*

In April 2014, China South International obtained the relevant approval for issuing medium-term notes in the national inter-bank market in the PRC with a maximum principal amount of RMB4 billion.

On May 9, 2014, China South International completed the issuance of the first tranche of medium-term notes of 2014 (the "2014 First tranche MTN") with a total principal amount of RMB1 billion in the national inter-bank market of the PRC. The 2014 First tranche MTN carry interest at the rate of 7.5% per annum and with a maturity period of 5 years, payable annually on May 9 in arrears, and will mature on May 9, 2019. The proceeds were to be used for repaying part of the short-term bank loans of our Group.

On September 12, 2014, China South International completed the issuance of the second tranche of medium-term notes of 2014 (the "2014 Second tranche MTN") with a total principal amount of RMB1 billion in the national interbank market of the PRC. The 2014 Second tranche MTN carry interest at the rate of 8.4% per annum and with a maturity period of 5 years, payable annually on September 12 in arrears, and will mature on September 12, 2019. The proceeds were to be used for repaying part of bank loans of our Group.

On July 13, 2015, China South International completed the issuance of the first tranche of medium-term notes of 2015 (the "2015 First tranche MTN") with a total principal amount of RMB2 billion in the national inter-bank market of the PRC. The 2015 First tranche MTN carry interest at the rate of 7.0% per annum and with a maturity period of 3 years, payable annually on July 13 in arrears, and will mature on July 13, 2018. The proceeds were to be used for replacement of bank loans of our Group and the development of China South City Nanning project.

### *Corporate Bonds*

On April 13, 2015, China South International completed the issuance of the corporate bonds with a total principal amount of RMB1.5 billion and with a term of up to 6 years in maximum on the Shanghai Stock Exchange of the PRC. The corporate bonds carry interest at the rate of 7.0% per annum, payable annually on April 13 in arrears, and will mature on April 13, 2021. The proceeds were to be used for funding the development of China South City Zhengzhou project.

### *Domestic Company Bonds*

In December 2015, China South International obtained the relevant approval for issuing the domestic company bonds in a maximum principal amount of RMB4.4 billion in the PRC.

On January 14, 2016, China South International issued the first tranche of domestic company bonds of 2016 ("2016 First Tranche DCB") with the total principal amount of RMB3 billion with a term of 3 years and at an interest rate of 5.98% per annum. The proceeds were to be used for repaying part of bank loans of the Group and for general corporate purposes.

On May 4, 2016, China South International issued the second tranche of domestic company bonds of 2016 ("2016 Second Tranche DCB") with the total principal amount of RMB1.4 billion with a term of 3 years and at an interest rate of 6.85% per annum. The proceeds were to be used for repaying part of bank loans of the Group and general working capital.

***2012 Notes***

On October 17, 2012, we entered into an indenture (as supplemented by a supplemental indenture dated February 27, 2013) pursuant to which we issued US$125 million principal amount of 13.5% senior notes due 2017. We used the net proceeds to fund our properties under development and properties planned for future development (including land grant fees), refinance a portion of our existing debt and for general corporate purposes. On April 15, 2016, we fully redeemed all of the 2012 Notes. For a detailed description of the 2012 Notes, see "Description of Other Material Indebtedness."

***2014 Notes***

On January 29, 2014, we issued 8.25% senior notes due 2019 in an aggregate principal amount of US$400 million pursuant to an indenture. As of March 31, 2016, we had a principal amount of US$400 million of the 2014 Notes outstanding. We used the net proceeds to fund our properties under development and properties planned for future development (including land grant fees), refinance a portion of our existing debt and for general corporate purposes. For a detailed description of the 2014 Notes, see "Description of Other Material Indebtedness."

***Bank and Other Borrowings***

Bank and other borrowings are important sources of funding for our operations. As at March 31, 2016, we had unused banking facilities of approximately HK$5,956.3 million. These facilities included both short-term working capital loans and long-term project construction loans.

The following table sets forth a breakdown of our short-term bank and other borrowings and long-term bank and other borrowings as of the dates indicated.

| | As of March 31, | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | | **(HK$ in thousands)** | |
| Short-term bank and other borrowings | 5,841,720 | 6,824,949 | 7,656,878 |
| Long-term bank and other borrowings | 6,610,675 | 8,640,398 | 8,965,863 |
| Total | 12,452,395 | 15,465,347 | 16,622,741 |

As of March 31, 2016, except for a bank loan in the aggregate principal amount of HK$300 million bearing interest at HIBOR plus 2.65% per annum, all of our other bank and other borrowings bore interest rates ranging from 3.3% to 7.5% per annum.

The following table sets forth a breakdown of our secured and unsecured bank and other borrowings as of the dates indicated.

| | As of March 31, | | |
|---|---|---|---|
| | 2014 | 2015 | 2016 |
| | | (HK$ in thousands) | |
| Unsecured bank and other borrowings | 3,961,161 | 5,105,124 | 2,968,569 |
| Secured bank and other borrowings | 8,491,234 | 10,360,223 | 13,654,172 |
| Total | 12,452,395 | 15,465,347 | 16,622,741 |

Most of our secured loans are project construction loans, which are generally secured by mortgages over a portion of our land use rights and a portion of our properties.

The following table sets forth the maturity profile of our interest-bearing bank and other borrowings as of the dates indicated.

| | As of March 31, | | |
|---|---|---|---|
| | 2014 | 2015 | 2016 |
| | | (HK$ in thousands) | |
| Within one year | 5,841,720 | 6,824,949 | 7,656,878 |
| Between 1–5 years | 6,016,314 | 8,106,077 | 8,659,801 |
| Over 5 years | 594,361 | 534,321 | 306,062 |
| Total | 12,452,395 | 15,465,347 | 16,622,741 |

The agreements under our banking facilities contain certain customary covenants, including to maintain certain financial ratios and to abide by certain restrictive and affirmative covenants. We were in compliance with all relevant covenants and financial ratios in our loan agreements as of March 31, 2016.

### *Commitments and Contingent Liabilities*

#### *Capital Commitments*

The following table sets forth our capital commitments as of the dates indicated.

| | As of March 31, | | |
|---|---|---|---|
| | 2014 | 2015 | 2016 |
| | | (HK$ in thousands) | |
| **Properties under development** | | | |
| Contracted but not provided for | 5,763,592 | 9,253,942 | 7,350,506 |

#### *Guarantees*

We guarantee mortgage and bank loans entered into by certain of our purchasers, including purchasers of trade center units and residential properties, and bank loans entered into by occupants of our residential and commercial properties. For mortgage loans, our guarantee terminates when the purchasers obtain the building ownership certificate and pledge it to the relevant banks. Although the mortgages we guarantee typically finance no more than 50% to 70% of the purchase price of our trade center units and residential properties or no more than 50% of the finance lease price of our residential and supporting commercial units, if a purchaser or tenant defaults on its mortgage or bank loan, we may be required to repay the outstanding amount together with accrued interest thereon and any penalty owed by the defaulting purchaser or tenant to the relevant bank. We are then entitled to take over the legal title and usage rights of the related properties.

For the fiscal years ended March 31, 2014, 2015 and 2016, we provided guarantees for mortgage loans for purchasers of trade centers and residential properties in the amount of approximately HK$3,741.0 million, HK$6,049.3 million and HK$5,805.4 million, respectively.

In addition, we make entrusted loans in connection with the sales and finance leases of certain units by advancing an amount, typically no more than one-half of the purchase price or the finance lease price, to the purchaser's lending bank. These advances appear as loan receivables and finance lease receivables on our consolidated statement of financial position. In the event of a purchaser default, we write off the receivable and are entitled to take over the legal title and usage rights of the related properties.

**Capital Expenditures**

For the fiscal years ended March 31, 2014, 2015 and 2016, we incurred capital expenditures in the amounts of HK$16,199.0 million, HK$18,495.9 million and HK$9,007.4 million, respectively. Our capital expenditures were mainly used for property development.

The following table sets forth our capital expenditures for the periods indicated.

| | As of March 31, | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | | **(HK$ in thousands)** | |
| Property, plant and equipment | 76,206 | 84,127 | 38,390 |
| Property under development and others | 16,122,799 | 18,411,736 | 8,968,980 |
| Total | 16,199,005 | 18,495,863 | 9,007,370 |

We cannot assure you that our capital expenditures can be financed on commercially acceptable terms, or at all. Our ability to obtain adequate financing to satisfy our capital expenditures, contractual obligations and debt service requirements may be limited by our financial condition and results of operations and the liquidity of domestic and international financial markets.

**Off-Balance Sheet Arrangements**

As of March 31, 2016, we did not have any off-balance sheet arrangements with unconsolidated entities. However, from time to time we do guarantee mortgage and bank loans entered into by purchasers of our trade center, residential and supporting commercial units. For further information on these arrangements, see "— Indebtedness and Contingent Liabilities — Commitments and Contingent Liabilities."

**Qualitative and Quantitative Disclosures About Market Risk**

We are exposed to various types of market risks in the normal course of business, including foreign exchange risk and interest rate risk. We have not in the past used derivatives to manage our exposure to interest rate risk or foreign exchange risk. The following discussion and analysis, which constitute "forward-looking statements" that involve risk and uncertainties, summarizes our exposure to different market risks.

***Foreign Exchange Risk***

We conduct our business primarily in Renminbi. In addition, our expenses are also primarily denominated in Renminbi, although a small portion of expenses are denominated in foreign currencies, such as salaries in Hong Kong dollars paid to staff in Hong Kong, advertising expenses for advertising in Hong Kong and overseas media, rental expenses for our office space in Hong Kong and other general office expenses. However, our reporting currency is the Hong Kong dollar because we are incorporated in

Hong Kong and the reporting currency of our major shareholders is also the Hong Kong dollar. During the fiscal year ended March 31, 2016, substantially all of our revenues were denominated in Renminbi. During the same period, substantially all of our expenses were denominated in Renminbi. As of March 31, 2016, all of our indebtedness was denominated in Renminbi except for our 2012 Notes and 2014 Notes, which are denominated in U.S. dollars, and a bank loan in the aggregated principal amount of HK$300 million. Our cash and bank balances are mainly held in bank deposits and primarily denominated in Renminbi and Hong Kong dollars. We believe the impact of foreign currency risk is not material to our operations and we have not hedged our foreign currency exposures or entered into any other derivative financial instruments. But see “Risk Factors — Risks Relating to Doing Business in the PRC — Fluctuation in the exchange rates of the Renminbi may have a material adverse effect on us and on your investment.”

***Interest Rate Risk***

We are exposed to interest rate risk due to fluctuations in interest rates on our debt and deposits. Our indebtedness consists primarily of bank and other borrowings. As of March 31, 2016, we had HK$16,622.7 million in total bank and other borrowings. Except for a bank loan in the aggregate amount of HK$300 million bearing interest at HIBOR plus 2.65% per annum, all of our other bank and other borrowings bore interest rates ranging from 3.3% to 7.5% per annum. We assess interest rate risk on an ongoing basis and will consider hedging against possible risks in that regard as the need arises.

Increases in interest rates could potentially result in an increase in our cost of borrowing, which could negatively affect our business and results of operations. Increases in interest rates could also adversely affect the ability of prospective purchasers to obtain financing for the purchase of units in our trade centers. The PBOC regulates the interest rates of our Renminbi-denominated borrowings. The PBOC-published benchmark one-year lending rates in China as of March 31, 2014, 2015 and 2016 were 6.00%, 5.35% and 4.35%, respectively.

We also make entrusted loans to purchasers of trade center, residential and office units. All of our entrusted loans bear interest at fixed rates, and are denominated in Renminbi. Our entrusted loans are long-term loans, which increases our interest rate risk exposure relating to these loans. Changes in market interest rates could affect the interest rates we charge and receive on our entrusted loans differently from the interest rates that we may be required to pay in relation to our external financings. Any adjustments to benchmark rates or changes in market interest rates may result in an increase in interest expense relative to interest income.

***Inflation***

In recent years, China has not experienced significant inflation, and thus inflation has not had a material impact on our results of operations. According to the National Bureau of Statistics of China, the change in Consumer Price Index in China was 2.6%, 2.0% and 1.4% for the calendar years ended 2013, 2014 and 2015, respectively.

**Non-GAAP Financial Measures**

We use EBITDA and Adjusted EBITDA to provide additional information about our operating performance. EBITDA refers to our earnings before interest income, income tax expense, depreciation and amortization, and finance costs. Adjusted EBITDA refers to profit before interest income, income tax expenses, depreciation and amortization, finance costs (excluding capitalized interest) and non-operating income and expenses (including fair value gains and losses on investment properties).

Neither EBITDA nor Adjusted EBITDA are standard measures under either U.S. GAAP or HKFRS. As our market sector is capital intensive, capital expenditure requirements and levels of debt and interest expenses may have a significant impact on the profit for the year of companies with similar operating results. Therefore, we believe these types of financial measures may be useful to assess the operating performance of companies in our market sector.

As measure of our operating performance, we believe that the most directly comparable HKFRS and U.S. GAAP measure to EBITDA or Adjusted EBITDA is profit for the year or period. We use EBITDA in addition to profit for the year or period because profit for the year includes many accounting items associated with capital expenditures, such as depreciation, as well as non-operating items, such as amortization of intangible assets and interest income and interest expense. These accounting items may vary between companies depending on the method of accounting adopted by the company. By minimizing differences in capital expenditures and the associated depreciation expenses as well as reported tax positions, intangible assets amortization and interest income and expense, EBITDA provides further information about our operating performance and an additional measure for comparing our operating performance with other companies' results. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments. We believe Adjusted EBITDA provides a more accurate presentation of our core earnings because it excludes non-operating income and expenses (including fair value gains and losses on investment properties, foreign exchange differences, net, and gain and loss on redemption of senior notes).

The table below reconciles our profit for the year or period under HKFRS to our definitions of EBITDA and Adjusted EBITDA for the periods indicated.

| | Fiscal Year Ended March 31, | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | | **(HK$ in thousands)** | |
| Profit before taxation | 6,168,828 | 5,859,489 | 4,904,233 |
| Adjustments for | | | |
| Interest income | (42,935) | (68,996) | (85,947) |
| Depreciation and amortization | 69,688 | 108,088 | 174,503 |
| Finance costs | 152,852 | 165,595 | 159,386 |
| **EBITDA** | **6,348,433** | **6,064,176** | **5,152,175** |
| Adjustments for | | | |
| Fair value gains on investment properties | (1,266,287) | (2,398,531) | (3,232,699) |
| Loss on redemption of senior notes | 176,082 | – | – |
| Fair value gain on derivative financial instrument | (103,348) | (151,915) | – |
| Fair value (gains)/losses on held for trading investments at fair value through profit or loss | 2,625 | (3,770) | 5,525 |
| Equity settled share option expense | 63,357 | 90,742 | 29,341 |
| Foreign exchange differences, net | (6,318) | (9,381) | 71,430 |
| Provision/(reversal of provision) for impairment of trade receivables | 58,697 | (16,400) | 96,660 |
| **Adjusted EBITDA** | **5,269,126** | **3,574,921** | **2,122,432** |

You should not consider our definitions of EBITDA and Adjusted EBITDA in isolation or construe such definitions as an alternative to profit for the year or period or any other standard measure under HKFRS or U.S. GAAP or as an indicator of operating performance. Our definitions of EBITDA and Adjusted EBITDA do not account for taxes, interest income, depreciation and amortization and finance costs. Our EBITDA and Adjusted EBITDA measures may not be comparable to similarly titled measures used by other companies.

*The information in the section below has been derived, in part, from official government sources unless otherwise indicated. This information has not been independently verified by us or the Initial Purchasers or any of our or its respective affiliates or advisors. The information may not be consistent with other information complied within or outside the PRC.*

## Overview of the PRC Economy

Over the last decade, China has experienced significant economic growth, largely as a result of the government's post-1978 economic reforms. China's accession to the World Trade Organization (the "WTO"), in 2001 has further accelerated the reform of the PRC economy. China's economic growth has primarily been driven by increased consumer spending as well as increased government spending on infrastructure and private sector investments in land developments. Real estate investment increased to RMB9.6 trillion in 2015 from RMB6.2 trillion in 2011, representing a CAGR of approximately 11.6%. Retail sales of consumer goods have reached RMB30.1 trillion in 2015 as compared to RMB18.7 trillion in 2011, a more than 60% increase in the past five years. In addition, China is one of the fastest growing economies in the world, with a nominal GDP CAGR of 8.8% from 2011 to 2015, reaching approximately RMB68.6 trillion in 2015.

The table below sets forth selected annual data relating to the PRC economy for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Nominal GDP (RMB billion) . . . . . . | 48,930.1 | 54,036.7 | 59,524.4 | 84,397.6 | 68,550.6 |
| Per capita GDP (RMB) . . . . . . . . . . | 36,403 | 40,007 | 43,852 | 47,203 | 49,992 |
| Foreign direct investment (US$ in billions) . . . . . . . . . . . . . | 124.0 | 121.1 | 123.9 | 128.5 | 126.3 |
| Fixed asset investment (RMB billion) . . . . . . . . . . . . . . . | 31,148.5 | 37,469.5 | 44,629.4 | 51.202.1 | 56,200.0 |
| Consumer price index . . . . . . . . . . . | 105.4 | 102.6 | 102.6 | 102.0 | 102.2 |
| Real estate investment (RMB trillion) | 6.2 | 7.2 | 8.6 | 9.5 | 9.6 |
| Retail sales of consumer goods (RMB trillion) . . . . . . . . . . . . . . . | 18.7 | 21.4 | 24.3 | 27.2 | 30.1 |
| Urban disposable income per capita (RMB) . . . . . . . . . . . . . . . . . . . . | 21,810 | 24,565 | 26,467 | 28,844 | 31,195 |

*Source:* National Bureau of Statistics of China.

## Regional Growth in the PRC Economy

### *Guangdong Province*

Guangdong Province is located in the heart of the Pearl River Delta, adjacent to Hong Kong to its south. It covers a total area of approximately 179,813 sq.km., and had a population of approximately 107.9 million as of December 31, 2015. The Pearl River Delta has been an important economic region in China with significant development and growth over the past decades. In line with the economic growth in Guangdong Province, the purchasing power of Guangdong residents has increased significantly over the years, which has supported the growth of the real estate market in Guangdong Province. In 2015, the per capita GDP of Guangdong Province increased by approximately 6.4% as compared to 2014.

The table below sets forth selected economic statistics for Guangdong Province for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Nominal GDP (RMB billion) | 5.321.0 | 5,706.8 | 6,247.5 | 6,781.0 | 7,281.3 |
| As % of PRC GDP | 10.9% | 10.6% | 10.5% | 10.5% | 10.6% |
| Per capita GDP (RMB) | 50,807 | 54,095 | 58,833 | 63,469 | 67,503 |
| Per capita GDP growth rate | 13.6% | 6.5% | 8.89% | 7.9% | 6.4% |
| Consumer price index | 104.5 | 102.9 | 102.7 | 101.1 | 102.1 |
| Fixed asset investment (RMB billion) | 1,706.9 | 1,875.1 | 2,280.8 | 2,629.4 | 3,034.3 |
| Retail sales of consumer goods (RMB billion) | 2.0 | 2.3 | 2.5 | 2.8 | 3.2 |

*Source:* Statistics Bureau of Guangdong Province, National Bureau of Statistics of China.

### *Jiangxi Province*

Jiangxi Province, located in the southern part of China with the Yangtze River as its northern border, comprises approximately 166,900 sq.km. in area. According to the Statistics Bureau of Jiangxi Province, as of December 31, 2015, Jiangxi Province had a population of approximately 45.6 million. In 2015, the per capita GDP of Jiangxi Province increased by approximately 5.9% as compared to 2014.

The table below sets forth selected economic statistics of Jiangxi Province for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Nominal GDP (RMB billion) | 1,170.3 | 1,294.8 | 1,441.0 | 1,571.5 | 1,672.4 |
| As % of PRC GDP | 2.4% | 2.4% | 2.4% | 2.4% | 2.4% |
| Per capita GDP (RMB) | 20,150 | 28,800 | 31,930 | 34,674 | 36,724 |
| Per capita GDP growth rate | 23.0% | 10.1% | 10.9% | 8.6% | 5.9% |
| Consumer price index | 103.9 | 102.7 | 103.0 | 101.4 | 101.5 |
| Fixed asset investment (RMB billion) | 908.8 | 1,077,4 | 1,285.0 | 1,507.9 | 1,738,8 |
| Retail sales of consumer goods (RMB trillion) | 0.3 | 0.4 | 0.5 | 0.5 | 0.6 |

*Source:* Statistics Bureau of Jiangxi Province, National Bureau of Statistics of China.

### *Guangxi Zhuang Autonomous Region*

Guangxi Zhuang Autonomous Region, located in Southwest China, comprises approximately 236,700 sq.km. in area. Because of its shared border with Vietnam and its proximity to Guangzhou and Hong Kong, Guangxi Zhuang Autonomous Region is an important commercial center that provides China strategic access to Southeast Asia. According to the Statistics Bureau of Guangxi Zhuang Autonomous Region, as of December 31, 2015, Guangxi Zhuang Autonomous Region had a population of approximately 47.7 million. In 2015, the per capita GDP of Guangxi Zhuang Autonomous Region increased by approximately 6.3%.

The table below sets forth selected economic statistics of Guangxi Zhuang Autonomous Region for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Nominal GDP (RMB billion) | 1,171.4 | 1,303.1 | 1,445.0 | 1,567.3 | 1,680.3 |
| As % of PRC GDP | 2.4% | 2.5% | 2.4% | 2.4% | 2.5% |
| Per capita GDP (RMB) | 25,315 | 27,943 | 30,741 | 33,090 | 35,190 |
| Per capita GDP growth rate | 25.3% | 10.4% | 10.0% | 7.6% | 6.3% |
| Consumer price index | 101.9 | 104.1 | 103.2 | 101.4 | 101.9 |
| Fixed asset investment (RMB billion) | 799.1 | 980.9 | 1,190.8 | 11,384.3 | 1,622.8 |
| Retail sales of consumer goods (RMB trillion) | 0.4 | 0.5 | 0.6 | 0.6 | 0.6 |

*Source:* Statistics Bureau of Guangxi Province, National Bureau of Statistics of China.

*Shaanxi Province*

Shaanxi Province, located at the east side of Northwest China, comprises approximately 205,800 sq.km. in area. According to the Statistics Bureau of Shaanxi Province, as of December 31, 2015, Shaanxi Province had a population of approximately 37.8 million. In 2015, the per capita GDP of Shaanxi Province increased by approximately 2.3% as compared to 2014.

The table below sets forth selected economic statistics of Shaanxi Province for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Nominal GDP (RMB billion) | 1,251.2 | 1,445.1 | 1,620.5 | 1,769.0 | 1,817.2 |
| As % of PRC GDP | 2.6% | 2.8% | 2.7% | 2.7% | 2.7% |
| Per capita GDP (RMB) | 33,464 | 38,564 | 43.117 | 46,929 | 48,023 |
| Per capita GDP growth rate | 23.3% | 15.2% | 11.8% | 8.3% | 2.3% |
| Consumer price index | 104.6 | 102.4 | 102.6 | 101.0 | 101.4 |
| Fixed asset investment (RMB billion) | 943.1 | 1,264.5 | 1,488.4 | 1,719.2 | 1,858.2 |
| Retail sales of consumer goods (RMB trillion) | 0.4 | 0.5 | 0.5 | 0.6 | 0.7 |

*Source:* Statistics Bureau of Shaanxi Province, National Bureau of Statistics of China.

*Henan Province*

Henan Province, located in the central part of China, comprises approximately 167,000 sq.km. in area. According to the Statistics Bureau of Henan Province, as of December 31, 2015, Henan Province had a population of approximately 94.6 million. In 2015, the per capita GDP of Henan Province increased by approximately 5.6% as compared to 2014.

The table below sets forth selected economic statistics of Henan Province for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Nominal GDP (RMB in billion) | 2,693.1 | 2,959.9 | 3,219.1 | 3,493.8 | 3,701.0 |
| As % of PRC GDP | 5.5% | 5.5% | 5.4% | 5.4% | 5.4% |
| Per capita GDP (RMB). | 28,661 | 31,499 | 34,211 | 37,072 | 39,131 |
| Per capita GDP growth rate | 17.2% | 9.9% | 8.0% | 8.4% | 5.6% |
| Consumer price index | 104.1 | 102.2 | 102.4 | 102.0 | 101.1 |
| Fixed asset investment (RMB billion) | 1,778.9 | 2,145.0 | 2,608.7 | 3,078.2 | 3,566.0 |
| Retail sales of consumer goods (RMB trillion) | 0.9 | 1.1 | 1.2 | 1.4 | 1.6 |

*Source:* Statistics Bureau of Henan Province, National Bureau of Statistics of China.

*Heilongjiang Province*

Heilongjiang Province, located in the northeastern part of China, comprises approximately 460,000 sq.km. in area. According to the Statistics Bureau of Heilongjiang Province, as of December 31, 2015, Heilongjiang Province had a population of approximately 38.2 million. In 2015, the per capita GDP growth rate of Heilongjiang Province increased by approximately 0.6% as compared to 2014.

The table below sets forth selected economic statistics of Heilongjiang Province for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Nominal GDP (RMB billion) . . . . . . | 1,258.2 | 1,369.2 | 1,445.5 | 1,503.9 | 1,508.4 |
| As % of PRC GDP . . . . . . . . . . . . . | 2.6% | 2.5% | 2.4% | 2.3% | 2.2% |
| Per capita GDP (RMB). . . . . . . . . . . | 32,819 | 35,711 | 37,697 | 39,226 | 39,462 |
| Per capita GDP growth rate . . . . . . . | 21.2% | 8.8% | 5.6% | 4.1% | 0.6% |
| Consumer price index . . . . . . . . . . . | 103.7 | 103.2 | 101.6 | 101.4 | 101.1 |
| Fixed asset investment (RMB billion) | 747.5 | 969.5 | 1,145.3 | 982.9 | 1,018.3 |
| Retail sales of consumer goods (RMB trillion) . . . . . . . . . . . . . . . . . . . . | 0.5 | 0.5 | 0.6 | 0.7 | 0.8 |

*Source:* Statistics Bureau of Heilongjiang Province, National Bureau of Statistics of China.

***Anhui Province***

Anhui Province, located in the Yangtze River Delta, comprises approximately 140,126 sq.km. in area. According to Statistics Bureau of Anhui Province, as of December 31, 2015, Anhui Province had a population of approximately 61.1 million. In 2015, the per capita GDP of Anhui Province increased by approximately 4.6% as compared to 2014.

The table below sets forth selected economic statistics of Anhui Province for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Nominal GDP (RMB billion) . . . . . . | 1,530.1 | 1,721.2 | 1,922.9 | 2,084.9 | 2,200.6 |
| As % of PRC GDP . . . . . . . . . . . . . | 3.1% | 3.2% | 3.2% | 3.2% | 3.2% |
| Per capita GDP (RMB) . . . . . . . . . . | 25,659 | 28,792 | 32,001 | 34,425 | 35,997 |
| Per capita GDP growth rate . . . . . . . | 22.8% | 12.2% | 11.1% | 7.6% | 4.6% |
| Consumer price index . . . . . . . . . . . | 103.9 | 102.1 | 102.1 | 101.2 | 101.4 |
| Fixed asset Investment (RMB billion) | 1,245.6 | 1,542.6 | 1,862.2 | 2,187.6 | 2,438.6 |
| Retail sales of consumer goods (RMB trillion) . . . . . . . . . . . . . . . . . . . . | 0.5 | 0.6 | 0.7 | 0.8 | 0.9 |

*Source:* Statistics Bureau of Anhui Province, National Bureau of Statistics of China.

***Chongqing***

Chongqing, located at the confluence of the Jialing River and Yangtze River in central China, comprises approximately 82,000 sq.km. in area. According to the Chongqing Municipal Statistics Bureau, as of December 31, 2015, Chongqing had a population of approximately 30.2 million. In 2015, the per capita GDP of Chongqing increased by approximately 9.4% as compared to 2014.

Chongqing is a transportation hub and an industrial powerhouse which has benefitted from the central government's "Go West Policy" promoted in 2000, a central initiative that aims to narrow the development gap between China's coastal areas and its other regions. China's western provinces have witnessed accelerated investment as a result of the central government's efforts, such as lower corporate income tax rate across the western region. Chongqing, at the heart of these policies, has grown significantly with the increased capital injection.

The table below sets forth selected economic statistics for Chongqing for the years indicated.

| Chongqing | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Nominal GDP (RMB billion) | 1,001 | 1,141 | 1,278 | 1,426 | 1,572 |
| As % of PRC GDP | 2.0% | 2.1% | 2.1% | 2.2% | 2.3% |
| Per capita GDP (RMB) | 34,500 | 38,914 | 43,223 | 47,850 | 52,330 |
| Per capita GDP growth rate (%) | 25.0% | 12.8% | 11.1% | 10.7% | 9.4% |
| Consumer price index | 105.3 | 102.6 | 102.7 | 101.8 | 101.3 |
| Fixed asset investment (RMB billion) | 747 | 874 | 1,044 | 1,229 | 1,435 |
| Retail sales of consumer goods (RMB billion) | 378 | 440 | 506 | 571 | 642 |

*Source:* Chongqing Municipal Statistics Bureau, National Bureau of Statistics of China.

## The Trade Center Market in the PRC

### *Overview*

Trade centers are wholesale markets in which groups of merchants can display and sell their goods. The trade center market within China is highly fragmented, with a large number of trade centers that vary widely in GFA and on industry focus. Many trade centers in China tend to specialize in one industry sector, such as textile and clothing, leather and accessories, electronics, printing and metals products and hardware. There are a limited number of trade centers in China with a GFA in excess of 400,000 sq.m. that offer products in more than one industry sector and have a comprehensive range of supporting services and facilities. In the last five years, many wholesale trade centers have been built in China. Most of these trade centers are clustered in industrial centers such as the Pearl River Delta, the Yangtze River Delta and the Bohai-Ring surrounding the Beijing region, as well as in regional transportation hubs throughout the country, for easy access to transportation systems. As a developer and operator of large integrated logistics and trade centers, we sell and lease units in our trade centers, which is consistent with the industry practice of other trade center developers and operators.

According to Colliers International, there is growing demand in China for trade centers that are owned and operated by a single entity and are well-managed, large-scale and integrated. Due to reduced efficiencies and competition that could arise in trade centers operated by several operators, trade centers with one operator tend to achieve relatively better operational results and higher occupancy rates, leading to higher rental rates in the market. Trade centers in China are also expected to increase in size and scope and may expand to include upstream and/or downstream facilities and supporting services. In addition, due to increased competition in the market, with many trade centers planned for development in the near future, small, randomly scattered specialized markets in downtown areas are combining and moving to suburban areas with good transportation networks and opportunities for expansion.

So far, one of the significant changes in the trade center market in China is the rapid development of integrated trade centers, which play an important role in driving economic growth, as many city governments are increasingly developing urban planning schemes for the development of retail facilities. To better integrate scattered specialized trade centers within a particular industry around cities or regions, integrated trade centers often contain several industries and can realize value from a variety of services and facilities like exhibition, trade, logistics, electronic businesses, and export. Integrated trade centers are with very competitive, considering that they can attract both retailers and purchasers with large scale, industrial agglomeration, one-stop purchasing, and modern operations, and management, among other advantages. Therefore, growth in large-scale integrated trade centers, in conjunction with China's increasing presence as a global manufacturing and export center, has increased demand for trade centers with logistics services, because logistics services increase efficiency in, and decrease transportation and logistical costs for, business transactions.

In 2016, China adopted its 13th Five-Year Plan which outlines China's goals, principles and targets for its development through to 2020. The plan sets an annual GDP growth target of 6.5% over the next 5 years, reflecting the central government's long-term goal of doubling China GDP and household income in the decade from 2010 to 2020. In line with China's "One Belt, One Road" strategy, urbanization and infrastructure investment remain high priorities with plans to coordinate regional development and road, rail and port infrastructure to tie the country together. Such policies are favorable to the development of the Chinese logistics and E-commerce sectors.

**The Trade Center Industry in Guangdong Province**

Guangdong Province has become a major center of manufacturing in China. Guangdong Province had a GDP of approximately RMB7,281.3 billion and exports with a value of US$643.6 billion, which accounted for 10.6% and 28.2%, respectively, of China's total GDP and exports, respectively.

Many industries, including the textile and clothing, leather manufacturing, hardware and construction materials, home appliances, electronics and furniture industries are located in the Greater Pearl River Delta. Within Guangdong Province, Dongguan, Shenzhen and Huizhou are centers of electronics and telecommunications equipment manufacturing. Zhuhai, Zhongshan, Shunde and Jiangmen are centers for home appliances and other household consumer durables, non-durable products and hardware products. Guangzhou, Foshan, Nanhai and Zhaoqing are centers for electricity, machinery, steel, shipbuilding, textiles and construction materials. In addition, Guangzhou is an emerging area for automobile manufacturing, software development and chemical manufacturing.

The Shenzhen Government issued a Notice to Optimize the Allotment of City Space Resources and to Promote the Industrial Transformation and Upgrades in 2013. According to the notice, the government will continue to push forward the marketization of industrial properties, including expanding the approval scale of industrial properties for sale.

The Twelfth-Five Year Plan of Shenzhen Commercial and Trading Circulation Industry (深圳市商貿流通業發展十二五規劃) also indicates that Shenzhen will speed up the construction of international trade centers and logistics distribution centers, and will strengthen the land allocation and infrastructure construction for sub-urban shopping centers, large trade centers or wholesale centers.

**The Trade Center Industry in Jiangxi Province**

In 2015, Jiangxi Province had a GDP of RMB1,672.4 billion, which accounted for approximately 2.4% of China's total GDP.

Jiangxi Province issued a notice on Strong Development and Construction of Core Growth Industries in Nanchang in 2012 (江西省人民政府關於全力支持南昌發展打造核心增長極的若干意見).

According to the above notice, the Government will speed up the construction of modern services cluster areas, including construction of Longtougang Integrated Logistics Park, China South City, Nanchang Small Commodity City and will continue to build modern logistics areas, which will be allowed to radiate into neighboring regions, including Jiangxi Province.

Jiangxi Province further issued a notice on Stronger Economic and Social Authority for Nanchang in 2016 (江西省人民政府關於賦予南昌市更大經濟社會管理權限的意見). According to the notice, the Government will grant the local government of Nanchang more decision-making authority on various development areas for Nanchang, such as approval for modern infrastructure projects, transportation management and tourism management.

There are a variety of small trade centers located in Nanchang, the capital of Jiangxi Province. Currently, the majority of trade centers in Nanchang are specialized, rather than comprehensive, in their industry focus, and most of the trade centers focus on selling finished goods. According to the Nanchang Municipal Statistical Bureau, as of the end of 2015, there were 31 centers in Nanchang with a total annual transaction volume of RMB100 million.

The Nanchang trade center market is fragmented, with numerous small trade centers. Several trade centers also provide logistics services. Many of the trade centers in Nanchang are often limited to one industry sector. There are currently no large-scale integrated trade centers in Nanchang.

**The Trade Center Industry in Guangxi Zhuang Autonomous Region**

Guangxi Zhuang Autonomous Region is developing into a regional trade center due to its proximity to ASEAN countries, such as Vietnam, Laos and Myanmar. In 2015, Guangxi Zhuang Autonomous Region had a GDP of RMB1,680.3 billion and exports with a value of US$28.0 billion, which accounted for 2.5% and 1.2%, respectively, of China's total GDP and exports.

According to Colliers International, the manufacturing industries in Guangxi are focused on light finished goods, such as clothing, footwear, furniture, and household appliances while the heavy manufacturing and raw materials industries are less developed in the region. The automobile parts and the decoration materials industries in Guangxi are also growing due to increased rates of real estate development and urbanization.

Nanning, the capital of Guangxi Zhuang Autonomous Region, has traditionally not been a manufacturing center but has instead focused on the service industry as a result of the rapid economic development of the region. According to Guangxi Provincial Planning Regarding the North Bay Economic Development (廣西北部灣經濟區發展規劃), Nanning will be developed to be an international trade and business, logistics base, and the large trade centers will be one of the mainstays of the city's economy.

The existing trade centers in Nanning mostly cover the souvenirs, construction materials and automobile markets. However, as the permanent host of the annual China-ASEAN Expo, the city is exposed to greater economic opportunities, and has started to develop and promote other industry sectors such as textiles and Chinese medicine, according to Colliers International.

The Nanning trade center market is currently fragmented with a range of trade centers varying in size and type of industries represented.

Logistics services are also available on-site at many of the trade centers. Most of the trade centers in Nanning are focused on one industry, with a lack of integrated, multi-industry trade centers with supporting logistics and auxiliary services.

**The Trade Center Industry in Shaanxi Province**

In 2015, Shaanxi Province had a GDP of RMB1,817.2 billion, which accounted for approximately 2.7% of China's total GDP.

There are more than 10 major trade centers located in Xi'an, the capital of Shaanxi Province. Currently, most of the trade centers focus on selling finished goods.

The Xi'an trade center market is fragmented, with numerous small trade centers. Several trade centers also provide logistics services. Many of the trade centers in Xi'an are often limited to one industry sector.

**The Trade Center Industry in Henan Province**

In 2015, Henan Province had a GDP of RMB3,701.0 billion, which accounted for approximately 5.4% of China's total GDP.

Zhengzhou, the capital of Henan Province, is a traditional wholesale market center in north China. There are a variety of small to medium-sized trade centers in Zhengzhou, the majority of which are specialized in their industry focus, rather than integrated, and most which are selling finished goods. The main trade sectors include construction and decoration products, food, small commodities, and others.

As of the end of 2015, more than twenty large trade centers with total GFA of 80,000 sq.m. and an occupancy rate of approximately 90% operated in Zhengzhou. Several of these trade centers also provide logistics services.

**The Trade Center Industry in Heilongjiang Province**

In 2015, Heilongjiang Province had a GDP of RMB1,508.3 billion, which accounted for approximately 2.2% of China's total GDP.

Harbin, the capital of Heilongjiang Province, is a major city in Northeast China and is also a key national base for green food production, equipment manufacturing and the high-tech industry.

The Harbin Municipal Government issued Plans for Construction of a Commodity Market System (Commercial Network) in Harbin (哈爾濱市商品市場體系(商業網點)建設規劃) in April 2013, which plans for certain supermarkets and wholesale markets to be relocated to alleviate traffic congestion in order to promote urbanization, which includes China South City's trade centers in Harbin.

In addition, Harbin will accelerate the construction of the East Harbin Modern Logistics Industry Region (哈東現代物流產業帶), which consists of the logistics industry region and 2 associated industrial zones, covering an aggregate site area of 114.6 sq.km. including 32.3 sq.km. in the Daowai District, 25.2 sq.km. in the Xiangfang District, and 5.2 sq.km. in the A Cheng District. Daowai Logistics Industry Zone (道外物流產業園區) was selected to be the core area to start (核心起步區), which is led by the China South City Project, the largest trade center investment in Heilongjiang Province.

**The Trade Center Industry in Anhui Province**

In 2015, Anhui Province had a GDP of RMB2,200.5 billion, which accounted for approximately 3.2% of China's total GDP.

Hefei, the capital of Anhui Province, is a traditional manufacturing city, and output of manufacturing of automobile, household appliances, etc., increased significantly in recent years.

There are a variety of small trade centers in Hefei, the majority of which are specialized, in their industry focus, rather than integrated, and most are selling finished goods.

The Hefei trade center market is fragmented, with numerous small trade centers. Several of these trade centers also provide logistics services. Many of the trade centers in Hefei are limited to one industry sector like clothing or construction and decoration products. There are currently no large scale integrated trade center in Hefei.

**The Trade Center Industry in Chongqing**

Chongqing is a transportation hub and an industrial powerhouse in China. In 2015, Chongqing had a GDP of RMB1,572.0 billion, which accounted for approximately 2.3% of China's total GDP.

Chongqing is located at the start point of Silk Road Economic Belt, in accordance with the "One Belt, One Road" economic initiative proposed by President Xi Jinping in 2013. Chongqing has daily direct train services to Europe, the Yuxinou Railway, which cuts time and costs to compete with maritime shipments. Chongqing has been approved as one of China's four first-tier port terminal open to international trade. These initiatives are favorable to the logistics and trade center business activities in Chongqing.

According to the "Opinion on Increasing Pace to Establish Trade Centers in Upper Yangtze River Region (關於加快建設長江上游地區商貿物流中心的意見)" issued by Chongqing Municipal Government in 2013, the government will continue to launch various initiatives to speed up the trade centers industry in Upper Yangtze River Region, and, in particular, will build core trade center regions in Chongqing by 2017-2020.

**The Logistics Industry in China**

***Overview***

The logistics industry comprises the procurement, purchasing, inventory, warehousing, distribution and transportation of goods and services from point of origin to point of consumption by the ultimate consumer. Third-party logistics is a relatively new industry in China. Traditionally, independent trucking companies, warehouse operators, railway agencies, freight forwarders and carriers have provided logistics services to enterprises in China. Of the enterprises registered as logistics services providers in China in 2006, the majority were confined to a segment of the supply chain, such as warehousing or point-to-point transportation, without the capability of providing comprehensive logistics services encompassing all segments of their customers' supply chain.

As foreign trade is more concentrated in China's coastal regions, the main locations in China for transportation and logistics services, including warehousing and distribution of goods, have traditionally been the Greater Pearl River Delta and the Yangtze River Delta. These regions are in proximity to the primary ports in China of Hong Kong, Shenzhen and Shanghai. However, as domestic trade in China continues to grow and the number of trade centers increase at regional hubs of transportation to cater to local markets, the need for transportation and logistics services will also increase in areas away from China's coastal regions.

Since its accession to the WTO in 2001, the PRC has adopted new liberalization policies in the logistics industry, which is expected to have a significant positive impact on China's transportation and logistics industry. Foreign logistics providers are now permitted to operate transportation and logistics services in China without geographic restrictions. The activities in China permitted of foreign logistics providers include: (1) freight forwarding operations; (2) storage and warehousing operations; (3) road freight transportation; (4) maritime transportation (subject to a limitation of 49% foreign equity ownership for certain types of activities); (5) air transportation (subject to a maximum 35% foreign equity ownership); and (6) wholesale and retail distribution of general goods.

***Drivers for Growth***

The major factors contributing to the growth in the logistics industry in China have been China's growing importance as a manufacturing and export center, as well as the overall growth in global trade, which has been driven by growth in both domestic and foreign trade of the PRC.

China has taken advantage of its lower production costs and a plentiful supply of inexpensive labor compared with more developed countries, and an increasingly sophisticated transportation infrastructure, to become a manufacturing and export center. As exports from China grow as a result of increased outsourcing of manufacturing to China, the number of manufacturing facilities in China and the amount of foreign direct investment, particularly in the manufacturing industry, in China will continue to grow. In 2015, the PRC was one of the major foreign trading nations in terms of trade volume, with total foreign trade volume of approximately US$3,963.2 billion, representing a 8.0% decrease compared to 2014.

Between 2011 and 2015, China's exports volumes grew at compounded annual growth rates of 4.7%. China's exports in 2015 increased to US$2,282.4 billion, representing decrease of 2.6%, compared to 2014.

The table below presents information relating to China's foreign trade for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| | (in billions of US$, except for percentages) | | | | |
| Exports | 1,899.3 | 2,050.1 | 2,210.7 | 2,343.2 | 2,282.4 |
| Imports | 1,741.4 | 1,817.3 | 1,949.3 | 1,963.1 | 1,680.8 |
| Balance of trade | 157.9 | 232.8 | 261.4 | 380.1 | 601.7 |
| Exports as percentage of imports | 109.1% | 112.8% | 113.4% | 119.4% | 135.8% |

*Source:* National Bureau of Statistics of China, General Administration of Customs.

The trend towards outsourcing logistics is another growth factor in the logistics industry in China. The major factor for increased outsourced logistics activity is a desire to reduce logistics costs. Although labor costs are low in China, processes are not streamlined, and information systems and automated processes are undeveloped. The PRC government is taking steps to improve the logistics infrastructure. Since 2007, the PRC spent a substantial amount on logistics assets and infrastructure. A substantial portion of the expenses was for transportation improvements, particularly for the rail and roadway infrastructure.

Furthermore, the recent WTO accession agreement has allowed the logistics industry in the PRC to be fully opened to foreign companies, which should increase demand for warehouses and logistics facilities throughout China. Also driving demand for warehouses and logistics facilities is the increase in trade and exports between China and Hong Kong resulting from the Closer Economic Partnership Arrangement, or CEPA, signed in 2003. Under CEPA, all goods made in Hong Kong (except certain prohibited articles) can be exported to China and enjoy zero tariffs, and all goods made in China can be exported to Hong Kong and enjoy zero tariffs. According to the China Statistical Yearbook, exports from Hong Kong to China increased 4.1% in 2015 compared to 2010, and exports from China to Hong Kong increased 51.5% in 2015 compared to 2010.

**Real Estate Market in the PRC**

***Overview***

In 1990, the State Council issued the Provisional Regulations of the PRC Concerning the Grant and Assignment of the Right to Use State Land in Urban Areas (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例) (the "Urban Land Regulations"). These rules, together with other land regulations and general economic growth in the PRC, have contributed to the significant growth experienced by the PRC property market since 1995.

The PRC property market continues to grow as evidenced by the increase in prices for property in China from 2011 to 2015. The average price per sq.m. for the overall property market, including residential and commercial property, was approximately RMB6,793 in 2015, compared to approximately RMB6,324 in 2014. The increase in land prices in the PRC is due to a number of factors, including the limited supply of land in favorable locations and competition among developers for the land. In response to the global economic downturn since 2009, the PRC government has adopted increasingly flexible macroeconomic policies to ease the economic downturn pressure.

The table below sets forth selected data relating to the PRC real estate market for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| **Supply indicators:** | | | | | |
| Investment in real estate (RMB billion) | 6,179.7 | 7,180.4 | 8,601.3 | 9,503.6 | 9,597.9 |
| GFA of commercial properties sold (sq.m. in millions) | 1,093.7 | 1,113.0 | 1,305.5 | 1,206.5 | 1,285.0 |
| GFA of properties under construction (sq.m. in millions) | 5,067.8 | 5,734.2 | 6,655.7 | 7,264.8 | 7,356.9 |
| GFA of new developments (sq.m. in millions) | 1,912.4 | 1,773.3 | 2,012.1 | 1,795.9 | 1,544.5 |
| **Demand indicators:** | | | | | |
| Average sales price of residential commodity properties (RMB per sq.m.) | 4,993 | 5,429 | 5,850 | 5,933 | 6,472 |
| Average sales price of all properties, including residential, commercial, office and other properties (RMB per sq.m.) | 5,377 | 5,791 | 6,237 | 6,324 | 6,793 |

*Source:* National Bureau of Statistics of China.

The PRC government has implemented a series of measures to tighten control of the property market since 2003. In March 2005, the PRC government instituted eight measures to rein in speculation in the residential property market, slow the growth of residential property prices and regulate the real estate industry. These measures included increasing the minimum required down payment to 30% of the total purchase price, eliminating the preferential mortgage interest rate for residential housing, imposing a business tax of 5% for sales within two years of purchase, and prohibiting reselling unfinished properties before they are completed. In 2006, the PRC government implemented additional land supply, bank financing and other measures to curtail fast increases in property prices, to encourage the development of middle- to low-end housing and promote healthy development of the PRC real estate industry. In 2007, the PRC government continued to institute measures to manage the rapid growth of the property market and provide a further regulatory framework to the property market. These measures included limiting access to capital by foreign-invested enterprises in various aspects, such as, limitations on the ability of foreign-invested enterprises to raise funds offshore and restrictions on the conversion and sale of foreign exchange into the capital account. In addition, the PRC government also imposed new requirements which must be satisfied prior to commencing the development of real estate investment projects and created further restrictions on obtaining loans from commercial banks. For further information on these measures, see "Regulation — Regulations on Foreign-Invested Real Estate Enterprises."

During 2007 to 2008, in response to the current global economic downturn and corresponding decline in the rate of growth of the PRC economy, the PRC government reversed certain policies with respect to the domestic property market, including the announcement and adoption of new measures specifically designed to encourage development of the domestic property market.

From 2009 to 2011, on the basis of global economic recovery and steady increase in the rate of growth of the PRC economy, the PRC government instituted several policies in attempt to curb overheating land and housing prices. Policies and measures instituted include adjustments to the rate of the savings deposit reserve fund, interest rate, taxes related to real estate, land supply and affordable housing construction. Furthermore, several first-tier cities in China have promulgated policies to further curb increasing housing prices and restrain speculation in the real estate market.

## Real Estate Market in Guangdong Province and Shenzhen

### *Guangdong Province*

According to the National Bureau of Statistics of China, a total GFA of approximately 60.4 million sq.m. of commodity properties was completed in Guangdong Province in 2015, representing a decrease of approximately 17.5% compared to 2014, and a total GFA of approximately 116.8 million sq.m. of commodity properties was sold in Guangdong Province in 2015, an increase of approximately 25.4% from 93.2 million sq.m. sold in 2014.

The table below sets forth certain information relating to the property market in Guangdong Province for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| GFA completed (sq.m. in millions). . . | 61.4 | 63.6 | 62.7 | 73.3 | 60.4 |
| GFA sold (sq.m. in millions) . . . . . . | 74.3 | 79.0 | 98.4 | 93.2 | 116.8 |
| % of total GFA sold in the PRC . . . . . | 6.8% | 7.1% | 7.5% | 7.7% | 9.1% |

*Source:* National Bureau of Statistics of China.

### *Shenzhen*

Shenzhen, which is the second largest city in Guangdong Province by developed land area, is located in the southern region of Guangdong Province. Highways, railways and waterways connect Shenzhen to nearby Hong Kong and Macau. According to the Statistics Bureau of Shenzhen, as of December 31, 2015, Shenzhen had a population of approximately 11.4 million. In 2015, Shenzhen's GDP reached approximately RMB1,750.3 billion, representing a per capita GDP of approximately RMB157,985.

The table below sets forth selected economic statistics of Shenzhen for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Nominal GDP (RMB billion). . . . . . . | 1,150.2778.7 | 1,295.0 | 1,450.0 | 1,600.2 | 1,750.3 |
| Per capita GDP (in RMB) . . . . . . . . . | 110,421 | 123,247 | 136,948 | 149,495 | 157,985 |
| Consumer price index . . . . . . . . . . . | 104.0 | 103.0 | 103.2 | 101.0 | 102.4 |

*Source:* Statistics Bureau of Shenzhen, National Bureau of Statistics of China.

According to Colliers International, as of December 31, 2012, there was a GFA of approximately 110.5 million sq.m. of industrial factories and a GFA of approximately 1.7 million sq.m. of warehouses under management in Shenzhen. The number of industrial properties has decreased significantly in core areas because most of them are undergoing upgrades and reconstruction, while the number in suburban areas has increased significantly. The industrial land and property market are both active in Shenzhen, and demand for land from manufacturing enterprises, trade enterprises and other exporters has resulted in a shortage of available land for industrial factories and warehouses in recent years.

According to Colliers International, the rental rates are expected to remain on a stable increasing trend in the future. The growth rate of the rental of quality warehouses will be even greater because of the active consumption demand both online and offline.

The table below sets forth certain information relating to the property market in Shenzhen for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Investment in real estate (RMB billion) | 5.15 | 73.7 | 87.7 | 100.9 | 133.1 |
| GFA of new developments (sq.m. in millions) | 5.4 | 9.1 | 13.7 | 9.3 | 12.1 |
| Average sales price of commodity properties (RMB per sq.m.) | 21,350 | 19,590 | 24,402 | 24,703 | 33,942 |

*Source:* Statistics Bureau of Shenzhen, National Bureau of Statistics.

## Real Estate Market in Other Provinces

### *Jiangxi Province*

According to National Bureau of Statistics of China, a total GFA of approximately 19.1 million sq.m. of commodity properties was completed in Jiangxi Province in 2015, and a total GFA of approximately 34.8 million sq.m. of commodity properties was sold in Jiangxi Province in 2015, an increase of approximately 13.4% from 30.7 million sq.m. sold in 2014.

The table below sets forth certain information relating to the property market in Jiangxi Province for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| GFA completed (sq.m. in millions) | 19.1 | 17.5 | 17.9 | 18.7 | 19.1 |
| GFA sold (sq.m. in millions) | 24.2 | 24.0 | 31.7 | 30.7 | 34.8 |

*Source:* Statistics Bureau of Jiangxi Province, National Bureau of Statistics of China.

### *Nanchang*

Nanchang, the capital of Jiangxi Province, is located in the northern region of Jiangxi Province. Located on the Gan River and near the intersection of the Jingjiu and Zhegan Railways, Nanchang serves as an important transportation hub for Southern China. According to the Statistics Bureau of Nanchang, as of December 31, 2015, Nanchang had a population of approximately 5.3 million. In 2015, Nanchang's GDP reached approximately RMB400.0 billion, representing a per capita GDP of approximately RMB75,879.

The table below sets forth selected economic statistics of Nanchang for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Nominal GDP (RMB billion) | 268.9 | 300.1 | 333.6 | 366.8 | 400.0 |
| Per capita (in RMB) | 53,023 | 58,715 | 64,678 | 70,373 | 75,879 |
| Consumer price index | 103.0 | 103.0 | 103.1 | 101.1 | 101.7 |

*Source:* Statistics Bureau of Nanchang, National Bureau of Statistics of China.

The table below sets forth certain information relating to the property market in Nanchang for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Investment in real estate (RMB billion) . . . . . . . . . . . . . . . | 28.0 | 34.4 | 40.6 | 41.4 | 48.5 |
| GFA of new developments (sq.m. in millions) . . . . . . . . . . . . | 8.6 | 10.1 | 11.2 | 6.4 | 8.5 |
| Average sales price of commodity properties (RMB per sq.m.) . . . . . . | 5,939 | 6,419 | 7,100 | 6,589 | 7,126 |

*Source:* Statistics Bureau of Nanchang, National Bureau of Statistics.

***Guangxi Zhuang Autonomous Region***

According to the Statistics of Guangxi Zhuang Autonomous Region, a total GFA of approximately 16.8 million sq.m. of commodity properties was completed in Guangxi Zhuang Autonomous Region in 2015, and a total GFA of approximately 35.2 million sq.m. of commodity properties was sold in Guangxi Zhuang Autonomous Region in 2015, an increase of approximately 11.6% from 31.6 million sq.m. sold in 2014.

The table below sets forth certain information relating to the property market in Guangxi Zhuang Autonomous Region for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| GFA completed (sq.m. in millions) . . | 23.0 | 23.3 | 17.1 | 18.7 | 16.8 |
| GFA sold (sq.m. in millions) . . . . . . | 29.6 | 27.6 | 30.0 | 31.6 | 35.2 |
| % of total GFA sold in the PRC . . . . . | 2.7% | 2.5% | 2.3% | 2.6% | 2.7% |

*Source:* Statistics of Guangxi Zhuang Autonomous Region, National Bureau of Statistics of China.

***Nanning***

Nanning, the capital of Guangxi Zhuang Autonomous Region, is located in the southern region of Guangxi Zhuang Autonomous Region. According to the Nanning Municipal Bureau of Statistics, as of December 31, 2015, Nanning had a population of approximately 7.0 million. In 2015, Nanning's GDP reached approximately RMB341.0 billion, representing a per capita GDP of RMB49,066.

The table below sets forth selected economic statistics of Nanning for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Nominal GDP (RMB billion) . . . . . . | 221.1 | 250.3 | 280.4 | 314.8 | 341.0 |
| Per capita (in RMB) . . . . . . . . . . . . | 33,017 | 37,016 | 41,094 | 43,303 | 49,066 |
| Consumer price index . . . . . . . . . . . | 101.4 | 103.3 | 103.3 | 100.8 | 102.4 |

*Source:* Nanning Municipal Bureau of Statistics.

The table below sets forth certain information relating to the property market in Nanning for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Investment in real estate (RMB billion) | 39.2 | 36.3 | 41.6 | 55.2 | 65.7 |
| GFA of new developments (sq.m. in millions) | 8.7 | 6.9 | 7.2 | 10.5 | 11.2 |
| Average sales price of commodity properties (RMB per sq.m.) | 5,196 | 6,003 | 6,959 | 6,627 | 6,646 |

*Source:* China Statistics Yearbook, Nanning Municipal Bureau of Statistics, National Bureau of Statistics.

### *Shaanxi Province*

According to the Statistics Bureau of Shaanxi Province, a total GFA of approximately 16.8 million sq.m. of commodity properties was completed in Shaanxi Province in 2015, and a total GFA of approximately 29.8 million sq.m. of commodity properties was sold in Shaanxi Province in 2015, a decrease of approximately 3.7% from 30.9 million sq.m. sold in 2014.

The table below sets forth certain information relating to the property market in Jiangxi Province for the periods indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| GFA completed (sq.m. in millions) | 11.3 | 16.5 | 15.1 | 21.9 | 16.8 |
| GFA sold (sq.m. in millions) | 30.5 | 27.6 | 30.5 | 30.9 | 29.8 |

*Source:* Statistics Bureau of Shaanxi Province, National Bureau of Statistics.

### *Xi'an*

Xi'an, the capital of Shaanxi Province, is located in the central region of Shaanxi Province. Located in the center of Northwest China, Xi'an is the key area of the West Development and the key stop for Eurasia Land Bridge with a long history. According to the Statistics Bureau of Xi'an, as of December 31, 2015, Xi'an had a population of approximately 8.7 million. In 2015, Xi'an's GDP reached approximately RMB581.0 billion, compared to approximately RMB549.3 billion in 2014.

The table below sets forth selected economic statistics of Xi'an for the periods indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Nominal GDP (RMB billion) | 386.4 | 436.9 | 488.4 | 549.3 | 581.0 |
| Per capita (in RMB) | 45,475 | 51,166 | 56,988 | 63,794 | N/A(1) |
| Consumer price index | 104.9 | 102.0 | 102.4 | 100.5 | 101.8 |

*Source:* Statistics Bureau of Xi'an, National Bureau of Statistics

The table below sets forth certain information relating to the property market in Xi'an for the periods indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Investment in real estate (RMB billion) . . . . . . . . . . . . . . . . | 99.7 | 128.2 | 159.6 | 176.2 | 183.2 |
| GFA of new developments (sq.m. in millions) . . . . . . . . . . . . | 29.2 | 28.0 | 25.2 | 24.4 | 25.1 |
| Average sales price of commodity properties (RMB per sq.m.) . . . . . . | 6,156 | 6,634 | 6,716 | 6,465 | 6,501 |

*Source:* Statistics Bureau of Xi'an, National Bureau of Statistics.

***Henan Province***

According to the Statistics Bureau of Henan Province, a total GFA of approximately 53.9 million sq.m. of commodity properties was completed in Henan Province in 2015, and a total GFA of approximately 85.6 million sq.m. of commodity properties was sold in Henan Province in 2015, an increase of approximately 8.6% from 78.8 million sq.m. sold in 2014.

The table below sets forth certain information relating to the property market in Henan Province for the periods indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| GFA completed (sq.m. in millions) . . | 55.3 | 58.7 | 59.7 | 73.2 | 53.9 |
| GFA sold (sq.m. in millions) . . . . . . | 62.8 | 59.7 | 73.1 | 78.8 | 85.6 |

*Source:* Statistics Bureau of Henan Province, National Bureau of Statistics of China.

***Zhengzhou***

Zhengzhou, the capital of Henan Province, is located in the central region of Henan Province. According to the Statistics Bureau of Zhengzhou, as of December 31, 2015, Zhengzhou had a population of approximately 9.6 million. In 2015, Zhengzhou's GDP reached approximately RMB731.5 billion, representing a per capita GDP of RMB77,217.

The table below sets forth selected economic statistics of Zhengzhou for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Nominal GDP (RMB billion) . . . . . . | 491.3 | 554.7 | 620.2 | 677.7 | 731.5 |
| Per capita (in RMB) . . . . . . . . . . . . | 56,086 | 63,328 | 68,073 | 72,991 | 77,217 |
| Consumer price index . . . . . . . . . . . | 104.2 | 102.2 | 102.5 | 101.8 | 101.2 |

*Source:* Statistics Bureau of Zhengzhou.

The table below sets forth certain information relating to the property market in Zhengzhou for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Investment in real estate (RMB billion) | 92.4 | 109.5 | 144.5 | 174.4 | 200.0 |
| GFA of new developments (sq.m. in millions) | 18.6 | 21.7 | 28.1 | 27.5 | 28.3 |
| Average sales price of commodity properties (RMB per sq.m.) | 5,696 | 6,253 | 7,162 | 7,571 | 7,357 |

*Source:* National Bureau of Statistics.

### *Heilongjiang Province*

According to National Bureau of Statistics of China, a total GFA of approximately 29.2 million sq.m. of commodity properties was completed in Heilongjiang Province in 2015, and a total GFA of approximately 20.0 million sq.m. of commodity properties was sold in Heilongjiang Province in 2015, a decrease of approximately 19.4% from 24.8 million sq.m. sold in 2014.

The table below sets forth certain information relating to the property market in Heilongjiang Province for the periods indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| GFA completed (sq.m. in millions) | 32.3 | 32.5 | 29.3 | 30.0 | 29.2 |
| GFA sold (sq.m. in millions) | 34.3 | 38.1 | 33.4 | 24.8 | 20.0 |

*Source:* National Bureau of Statistics of China.

### *Harbin*

Harbin, the capital of Heilongjiang Province, is located in the southwest region of Heilongjiang Province. According to the Statistics Bureau of Harbin, as of December 31, 2012, Harbin had a population of approximately 10.6 million. In 2015, Harbin's GDP reached approximately RMB575.1 billion, representing a per capita GDP of RMB59,027.

The table below sets forth selected economic statistics of Harbin for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Nominal GDP (RMB billion) | 424.2 | 455.0 | 501.7 | 534.0 | 575.1 |
| Per capita (in RMB) | 42,736 | 45,810 | 50,435 | 53,872 | 59,027 |
| Consumer price index | 103.4 | 103.2 | 102.4 | 102.1 | 101.4 |

*Source:* Statistics Bureau of Harbin.

The table below sets forth certain information relating to the property market in Harbin for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Nominal GDP (RMB billion) . . . . . . | 56.2 | 77.2 | 85.0 | 67.4 | 58.2 |
| GFA of new developments (sq.m. in millions) . . . . . . . . . . . . | 25.3 | 18.3 | 15.5 | 10.7 | 11.6 |
| Average sales price of commodity properties (RMB per sq.m.). . . . . . | 5,398 | 5,518 | 6,194 | 6,182 | 6,419 |

*Source:* Harbin Statistical Yearbook, National Bureau of Statistics.

### *Anhui Province*

According to the National Bureau of Statistics of China, a total GFA of approximately 55.4 million sq.m. of commodity properties was completed in Anhui Province in 2015, representing an increase of approximately 6.6% compared to 2014, and a total GFA of approximately 61.7 million sq.m. of commodity properties was sold in Anhui Province in 2015, representing a decrease of approximately 0.5% compared to 2014.

The table below sets forth certain information relating to the property market in Anhui Province for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| GFA completed (sq.m. in millions) . . | 36.3 | 39.7 | 51.8 | 52.0 | 55.4 |
| GFA sold (sq.m. in millions) . . . . . . | 46.1 | 48.3 | 62.7 | 62.0 | 61.7 |

*Source:* National Bureau of Statistics of China.

### *Hefei*

Hefei, the capital of Anhui Province, is located in the center of Anhui Province. According to the Statistics Bureau of Hefei, as of December 31, 2015, Hefei had a population of approximately 7.8 million. In 2015, Hefei's GDP reached approximately RMB566.0 billion, representing a per capita GDP of approximately RMB73,102.

The table below sets forth selected economic statistics of Hefei for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Nominal GDP (RMB billion) . . . . . . | 363.7 | 416.4 | 467.3 | 518.1 | 566.0 |
| Per capita GDP (RMB) . . . . . . . . . . | 48,540 | 55,182 | 61,555 | 67,689 | 73,102 |
| Consumer price index . . . . . . . . . . . | 103.8 | 102.1 | 102.5 | 101.5 | 101.9 |

*Source:* Statistics Bureau of Hefei.

The table below sets forth certain information relating to the property market in Hefei for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Investment in real estate (RMB billion) | 89.0 | 91.4 | 110.6 | 112.7 | 125.9 |
| GFA of new developments (sq.m. in millions) | 19.0 | 14.9 | 22.1 | 20.5 | 19.8 |
| Average sales price of commodity properties (RMB per sq.m.) | 6,326 | 6,156 | 6,284 | 7,157 | 7,095 |

*Source:* National Bureau of Statistics.

**Real estate market in Chongqing**

According to National Bureau of Statistics of China, a total GFA of approximately 46.3 million sq.m. of commodity properties was completed in Chongqing in 2015, and a total GFA of approximately 53.8 million sq.m. of commodity properties was sold in Chongqing in 2015, an increase of approximately 5.5% from the approximately 51.0 million sq.m. sold in 2014.

The tables below set forth certain information relating to the property market in Chongqing for the years indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| GFA completed (million sq.m.) | 34.2 | 39.9 | 38.0 | 37.2 | 46.3 |
| GFA sold (million sq.m.) | 45.3 | 45.2 | 48.2 | 51.0 | 53.8 |
| % of total GFA sold in the PRC | 4.1% | 4.1% | 3.7% | 4.2% | 4.2% |

*Source:* Chongqing Municipal Statistics Bureau, National Bureau of Statistics of China.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Investment in real estate (RMB billion) | 202 | 251 | 301 | 363 | 375 |
| GFA of new developments (million sq.m.) | 68.2 | 58.1 | 76.4 | 62.5 | 58.1 |
| Average sales price of commodity properties (RMB per sq.m.) | 4,734 | 5,080 | 5,569 | 5,519 | 5,486 |

*Source:* Chongqing Municipal Statistics Bureau, National Bureau of Statistics of China.

## History

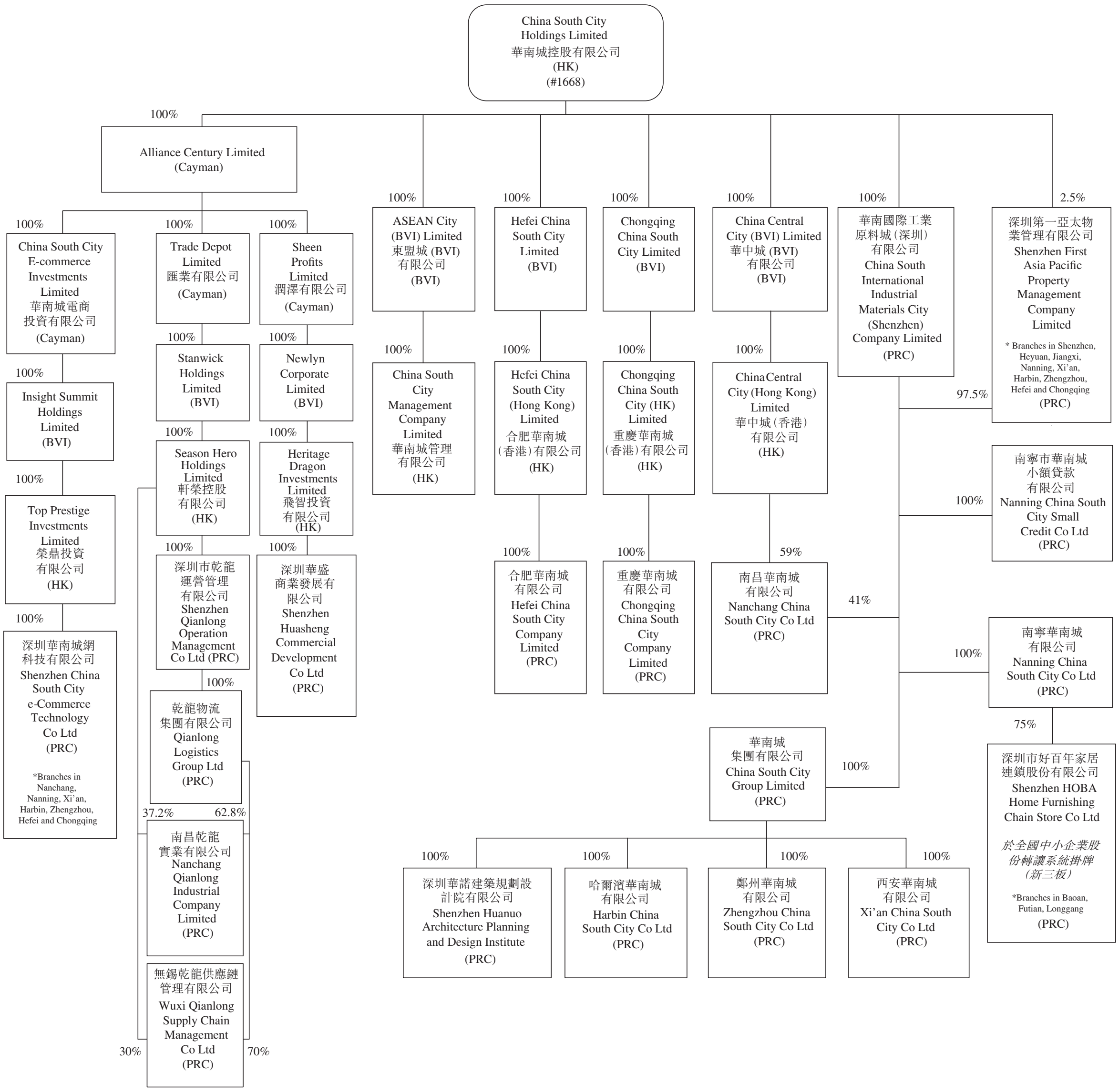
Our business model and concept was initially developed by Messrs. Cheng Chung Hing and Leung Moon Lam. Following various discussions among Messrs. Cheng Chung Hing, Ma Kai Cheung, Leung Moon Lam, Sun Kai Lit and Ma Wai Mo (who we collectively refer to as our founding shareholders), our founding shareholders formalized and carried out our business plan. Our five founding shareholders are either chairman or executive directors of leading manufacturing and industrial companies based in Hong Kong with operations in the Greater China Pearl River Delta region, and have extensive experience and a well-developed network of contacts in their respective industries.

Our Company was incorporated on May 8, 2002. We are listed on the Hong Kong Stock Exchange and completed our initial public offering in September 2009.

We conduct our business primarily through our subsidiaries and associated entities established in the PRC.

## Corporate Structure

The following chart sets forth our corporate structure for each of our material subsidiaries, with the jurisdiction of each entity in parenthesis, as of the date of this offering memorandum:




*Note:* The English names of all PRC-incorporated companies are for identification purpose only

## Overview

We are a leading developer and operator of large-scale, integrated logistics and trade centers in the PRC, based on GFA, industry coverage and range of ancillary services and facilities offered. Leveraging our experience and brand reputation, we currently have eight projects in different stages of development located in regional economic hubs in Shenzhen, Nanning, Nanchang, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing, China, with a total planned GFA of approximately 81.8 million sq.m., out of which we have acquired land use rights of approximately 34.7 million sq.m. attributable GFA as of March 31, 2016, of which approximately 12.3 million sq.m. has been completed and approximately 6.5 million sq.m. is under development as of March 31, 2016.

Our business model is built on the premise of "One Body with Two Wings," with the "One Body" represented by our large-scale integrated logistics and trade centers, designed to serve as key commercial hubs to satisfy the economic and industrial needs of the regions in which we operate, and the "Two Wings" represented by the ancillary residential and commercial facilities, designed to facilitate the operations of our trade center occupants and their customers. We serve wholesale markets for multiple industries at our trade centers, which are complemented by residential developments and comprehensive ancillary commercial facilities including hotel, office, warehouse, exhibition and conference facilities as well as E-commerce services. Our residential facilities further complement our trade center operations by providing convenient, high-quality accommodations for our trade center occupants, as well as generating cash flows to cover a portion of project-related capital expenditures. Our business model is further augmented by the on-site presence of PRC government agencies, banks and securities firms, which offer a diverse range of services to trade center occupants and other customers.

Our "One Body with Two Wings" business model is supported by five pillars of ancillary services, namely our logistics and warehousing services, E-commerce services, outlet and furnishing centers operations, property management services and exhibition and conference facilities, that complement our core business of developing and operating trade centers. We provide one-stop logistics services such as warehousing, integrated inbound/outbound services, on-site delivery and freight forwarding to our customers. We provide an E-commerce platform, namely CSC86.com, which combines the advantages of physical and online stores, through which our clients can promote their businesses and products online. Following the success of trade fairs at our various projects, we established a one-stop exhibition platform for organizing convention and exhibition at our projects, through which we have hosted a number of significant events which has enhanced our reputation and facilitated traffic flow through our trade centers. In addition, our outlet and furnishing center operations have also boosted overall traffic at our related projects and expanded our operations. We plan to further boost overall traffic by building upon our successful outlets, expanding and replicating this further at our other projects. Our property management services help maintain a safe and comfortable business environment at our trade centers and ancillary facilities. We believe that this expansion of the scope of services provided will enable us to build a self-sustaining business strategy that will strengthen our overall business model.

Our first project, China South City Shenzhen, has a planned GFA of approximately 2.6 million sq.m.. As of March 31, 2016, it had approximately 2.3 million sq.m. of GFA of trade centers and ancillary facilities completed and in operation, with approximately 242,200 sq.m. of GFA under development and planned for future development. China South City Shenzhen is strategically located in the Pearl River Delta and centered within an extensive transportation network of airports, railways, port facilities and highways that facilitate trade in the region.

Leveraging our success, experience and brand recognition from our China South City Shenzhen project, we have added seven additional projects:

- China South City Nanchang, with a planned GFA of approximately 7.3 million sq.m., is currently under Phase Two development in Nanchang, the capital of Jiangxi Province. As of March 31, 2016, it had approximately 1.5 million sq.m. of GFA completed and approximately 711,600 sq.m. of GFA under development. As it is strategically located to serve both the Pearl River Delta and Yangtze River Delta regions, we believe that China South City Nanchang is well positioned to develop in line with the expected increase in trade within and among these regions.

- China South City Nanning, with a planned GFA of approximately 4.9 million sq.m., is currently under Phase One development in Nanning, the capital of Guangxi Zhuang Autonomous Region. As of March 31, 2016, it had approximately 1.4 million sq.m. of GFA completed and approximately 558,500 sq.m. of GFA under development. Strategically located in close proximity to Southeast Asia, we believe China South City Nanning will serve as a key hub for cross-border commodity trade with ASEAN countries.

- China South City Xi'an, with a planned GFA of approximately 17.5 million sq.m., is under Phase One development in Xi'an, the capital of Shaanxi Province, at the Xi'an International Trade and Logistics Park with access to a railway container terminal. As of March 31, 2016, it had approximately 1.4 million sq.m. of GFA completed and approximately 456,400 sq.m. of GFA under development. China South City Xi'an is positioned to capitalize on the opportunities arising from China's strategic development of its western regions and the "One Belt, One Road" initiative, catering to the growing development needs in the region.

- China South City Harbin, with a planned GFA of approximately 12.0 million sq.m., is under Phase One development in Harbin, the capital of Heilongjiang Province. As of March 31, 2016, it had approximately 855,600 sq.m. of GFA completed and approximately 1.3 million sq.m. of GFA under development. We believe that the site's location in Northeast China makes it a premier hub for cross-border trade with countries in Northeast Asia, and we intend to capitalize on opportunities arising from the area's emerging development potential due to its proximity to the China-Russia border.

- China South City Zhengzhou, with a planned GFA of approximately 12.0 million sq.m., is under Phase One development in Zhengzhou, the capital of Henan Province. As of March 31, 2016, it had approximately 2.5 million sq.m. of GFA completed and approximately 1.3 million sq.m. under development. Zhengzhou is highly accessible as a primary passenger and freight hub, a convenient trading platform to promote trade among cities in central China.

- China South City Hefei, with a planned GFA of approximately 12.0 million sq.m., is under Phase One development in Hefei, the capital of Anhui Province. As of March 31, 2016, it had approximately 1.2 million sq.m. of GFA completed with approximately 1.8 million sq.m. of GFA under development. Hefei is a transport and economic hub at the heart of Eastern China and China South City Hefei benefits from its strategic location in the Hefei Taohua Industrial Park.

- China South City Chongqing with a planned GFA of approximately 13.5 million sq.m., located in Chongqing Municipality. As of March 31, 2016, it had approximately 1.2 million sq.m. of GFA completed and approximately 151,300 sq.m. of GFA under development. China South City Chongqing is highly accessible from the city center and other regions given its strategic location in the Chongqing Highway Logistics Base.

We expect the aggregate planned GFA of these eight projects will be sufficient to support several years of development.

**Our Competitive Strengths**

We believe that we are well-positioned to take advantage of the continuing modernization of the domestic trade and logistics facilities in China as a result of China's call for a more efficient and consumption driven economy. Our flexible business model enables us to mitigate the impact arising from the cyclical fluctuations in the market and keep pace with market changes. We believe that we have the following competitive strengths:

***Our unique "One Body with Two Wings" business model provides an integrated platform for our trade center occupants and their customers to receive a comprehensive range of trade, logistics and ancillary services***

Our business model is built on a premise of "One Body with Two Wings," with the "One Body" represented by our large-scale integrated logistics and trade centers, designed to serve as key commercial hubs to satisfy the economic and industrial needs of the regions in which we operate, and the "Two Wings" represented by our residential and commercial facilities, designed to facilitate the operations and accommodation of our trade center occupants and their customers. The scale and scope of our projects attract buyers and sellers seeking to take advantage of the synergies within our integrated logistics and trade centers. Buyers are able to meet their purchasing needs for a wide range of finished and unfinished goods in multiple industries as well as effectively diversify and tailor their sourcing needs. Sellers are able to streamline their business operations by taking advantage of the full range of on-site logistics and trade solutions available at our integrated logistics and trade centers.

We believe the comprehensive range of trade, logistics and residential and commercial facilities and services offered at our trade center projects provides us with diverse revenue streams and differentiates our business model from that of traditional property developers. Furthermore, we expect sales of our residential properties to provide us with an effective means to generate cash flows to cover a portion of the capital expenditures of our projects. We have replicated the success of our China South City Shenzhen business model in Nanchang, Nanning, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing.

***The provision of ancillary services to complement our trade centers further strengthens our business model***

We have implemented our strategy to extend our "One Body with Two Wings" business model to include five pillars of ancillary services that complement our core business of developing and operating trade centers. These ancillary services include:

- one-stop logistics services such as warehousing, integrated inbound/outbound services, on-site delivery and freight forwarding, which provide various services to customers;

- an E-commerce platform, combining the advantages of physical and online stores, which has allowed our clients to promote their businesses and products online;

- outlet and furnishing center operations which we believe have boosted overall traffic and expanded our operations;

- property management services that have enabled us to maintain a safe and comfortable business environment at our projects, which differentiates us from traditional wholesale markets and other trade centers; and

- a one-stop exhibition platform for organizing convention and exhibition services, through which we have hosted a number of significant events which enhanced our reputation and facilitated traffic flow through our trade centers.

We believe that these five pillars of ancillary services will enhance our self-sustaining business strategy and strengthen our overall business model by providing value-added services to our customers and increasing traffic flow throughout our projects. Through these services, we are able to generate a stable source of recurring income. See "— Five Pillars of Ancillary Services."

***We are a solution provider for local governments and enjoy strong municipal and regional government support in the locations in which we currently operate***

When selecting new sites for our projects, we strategically seek out locations in which local and regional governments have proactively expressed a desire to develop integrated logistics and trade centers in their long-term plans. We believe that our development of trade centers will help bring employment opportunities and contribute to GDP growth by generating traffic and business through our trade centers. We assist local governments with the implementation of their urbanization plans by relocating and consolidating traditional wholesale markets in the region as we develop our new trade centers. In doing so, we are able to better align our business operations with the long-term economic development plans and urbanization of the regions in which we develop and operate our projects. For example, we have been working with the local government in Zhengzhou to relocate old style trade centers and wholesale markets as they carry out their urban planning. Such consolidation and relocation are intended to improve the efficiency of the infrastructure and transportation in the region, as well as to improve health and safety conditions such as pollution or fire safety.

As part of the relocation initiative, we are also re-grouping trade centers by industry as the old style trade centers are relocated. As we relocate traditional wholesale markets, which typically only cover a single industry with limited management and less value-added services to suburban areas, we expect to promote our services by serving a broader range of industries and adding value by providing ancillary services for our customers. We promote our fully integrated procurement and logistics services for manufacturers, wholesalers and distributors, which we believe will attract them to our trade centers by allowing them to reduce their trading and logistic costs.

With local administrative support, we have been able to secure large plots of land under master agreements by leveraging our demonstrated strong track record. Pursuant to the terms of our master agreements and corresponding supplementary agreements, representatives of the local governments undertake responsibility for relocating all prior occupants of the land as well as improving or establishing roads, subways, railways, bus stations and other infrastructure within the project area. For example, as part of a broader effort to improve local transportation infrastructure, government authorities have undertaken construction of new roads and other supporting infrastructure surrounding our projects as well as underground subway connection to our projects. Several PRC government agencies also maintain an on-site presence at certain of our projects to assist trade center occupants and other visitors.

***We provide sufficient ancillary residential properties at our projects***

At each of our projects, we allocated approximately 50% of the total buildable GFA for the development of trade center units and the remaining 50% for the development of ancillary residential and commercial facilities, of which approximately 20% is allocated for the development of residential properties, approximately 15% for logistics and warehousing facilities and the remaining 15% for other commercial facilities. This diversified and flexible business model enables us to mitigate the impact of, and capitalize on, changes in consumer demand for commercial and residential properties as well as changes in governmental policies. For example, during the fiscal year ended March 31, 2016, the PRC government introduced measures to reduce housing inventory and promote rational consumption, which led to positive developments in the residential property market. We were able to adjust our product mix to keep pace with market changes and launched more residential properties during that year. As a result, sales of our residential properties as a percentage of total Contracted Sales increased from 22.6% for the fiscal year ended March 31, 2015 to 35.0% for the fiscal year ended March 31, 2016, partially offsetting our decline in sales of trade center units due to the downturn in the overall PRC economy that year.

***Our land costs are lower than many other PRC property developers, allowing us to minimize downside risk and providing us with high potential for appreciation in our targeted markets***

Our trade center projects are strategically located in fast growing first tier, provincial capital cities and municipalities. Due to the nature of our business and the site of our projects, whereby we build our trade center projects to become primary hubs for trade of raw materials and finished goods, we are able to acquire large parcels of land for relatively low cost. The low cost of land provides us with significant potential for profitability, allows us to minimize downside risk, helps increase the appreciation potential of our land reserves and allows us to offer more attractive sales and leasing terms than those offered by our competitors. We were able to maintain a high gross profit margin of 48.6%, 53.0%, 48.2%, and net profit margin (excluding fair value gains on investment properties, gain on disposal of subsidiaries and their related tax effects, fair value gain on derivative financial instrument and loss on redemption of the senior notes) of 19.7%, 19.0% and 19.9%, respectively, for the fiscal years ended March 31, 2014, 2015 and 2016, respectively.

The following table sets forth the cost of our land acquired by project as of March 31, 2016.

| Project | Land Cost (per GFA) |
|---|---|
| | (RMB/sq.m. of GFA) |
| China South City Shenzhen | 119 |
| China South City Nanning | 397 |
| China South City Nanchang | 327 |
| China South City Xi'an | 546 |
| China South City Harbin | 438 |
| China South City Zhengzhou | 141 |
| China South City Hefei | 254 |
| China South City Chongqing | 175 |
| Weighted average | 295 |

***Our integrated logistics and trade centers are strategically located in accessible, fast growing first tier, provincial capital cities and municipalities***

Our integrated logistics and trade centers are situated in first tier, provincial capital cities and municipalities near well-developed transportation networks with increasing trade and economic activities. The Pearl River Delta, where China South City Shenzhen is located, represents one of the leading manufacturing and export regions in China. Similarly, China South City Nanchang, Nanning, Harbin, Xi'an, Zhengzhou, Hefei and Chongqing are located in first tier, provincial capital cities and municipalities which have sizeable populations and are centers of economic activities and industries in their respective province.

Within the Pearl River Delta, China South City Shenzhen is situated within 35 to 180 kilometers of four international airports as well as five container ports, including Kwai Chung Container Terminal in Hong Kong and Yantian Port in Shenzhen. In addition, China South City Shenzhen is connected to each of the major railway arteries in Southern China as well as at least 10 major highways linking each of the major cities in the Greater Pearl River Delta region. China South City Nanchang, which is currently under development, is located in Nanchang, which is one of China's important transportation hubs, and is situated at the intersection of two of China's major railway arteries, the Jingjiu and Zhegan Railways, with ready access to major highways, airports and the largest port on the Gan River. There is a complete freight network including a cargo marshall yard, a container terminus and an international airport, together with Nanchang West Railway Station, a principal high-speed rail station located just 1.2 km away from our project site. China South City Nanning, which is also under development, is located in Nanning. Nanning is located in close proximity to the Fangchenggang heavy port facility as well as other Southern Chinese sea ports and is emerging as a core regional trade center between Southeast and Southwest China and neighboring countries in Southeast Asia. China South City Xi'an is located in the Xi'an International Trade and Logistics Park in Shaanxi Province, which is well-equipped with a railway container terminal and the largest bonded area in the northwestern regions of China. The subway line 3 is planned to pass through this area with one of the subway stations next to our planned Phase One buildings. China South City Harbin is strategically located in Harbin, a premier hub for cross-border trade with countries in Northeast Asia; China South City Zhengzhou is located in Zhengzhou, which is highly accessible with extensive land and air networks as it is a main passenger and freight hub via the extensive highway and railway networks in China and its international airport; China South City Hefei is located in Hefei, near the city's railway and highway; and China South City Chongqing is our first project in China's municipalities.

***We have a proven track record of successful development and launch of our projects, which has earned us brand name recognition and diversified our revenue streams***

China South City Shenzhen is in its third phase of development, with a total of 2.3 million sq.m. of GFA completed, including trade centers, office, residential and warehouse facilities as well as a number of hotels, restaurants and other ancillary facilities as of March 31, 2016. Over the years, we have grown from one project in Shenzhen to an industry leader with eight projects across China. We believe that this diversification of our revenue streams allows us to minimize our operational and financial risks.

We have adopted international practices and applied stringent quality control procedures with respect to the design and quality of the construction of our trade centers, which are well supported by conveniently located transportation and infrastructure. Furthermore, our complementary five pillars of ancillary services ensure that our trade centers offer a comprehensive range of convenient and value-added services for our occupants and customers. We believe that due to the size and scale of our projects, we are able to boost employment and tax revenue and contribute to GDP growth in each region in which are operate. We believe these successes have garnered us brand name recognition as an operator and developer of integrated logistics and trade centers and earned us the support of local governments. This in turn has given us leverage in negotiating the key contractual terms applicable to our projects. We believe that our continued participation in the China-ASEAN Expo and Light Industrial Exhibitions and other trade fairs have helped us in our efforts to solidify our brand as the leading developer and operator of large-scale, integrated logistics and trade centers in the PRC.

***We have a strong, experienced management team with a demonstrated record of success***

We consider our strong and experienced senior management team to be key to the success of our integrated logistics and trade center development projects. We rely on our senior management's experience and insight regarding important factors that contribute to the success of our projects, such as careful site selection, detailed project planning and management, stringent cost control and effective quality control. Our senior management team also has extensive experience in operational and financial management, which we believe provides us with a key competitive advantage. Our team of executive directors has extensive experience in the wholesale and manufacturing management business as well as having a strong representative presence in various Hong Kong and PRC industrial and commercial associations and PRC consultative bodies, including both national and local Committees of the Chinese People's Political Consultative Conference. The members of our financial team are all qualified accountants with experience in financial management, mergers and acquisitions, capital markets financing and corporate restructuring. Furthermore, we have developed a strong construction and sales team with specialized experience in each of the different trade and logistics services industries represented at our projects. We believe our management team's comprehensive industry background has helped us to achieve our past success and will enable us to successfully implement our growth strategies in the future.

***We have a prudent development strategy for each project and for our Group as a whole***

We carefully select our project locations, targeting first tier, provincial capital cities and municipalities with growth potential, supported by a sufficient population base, favorable government plans and strong regional demand. Each of our projects is developed in phases in order to maintain sustainable growth and development from site selection and land acquisition to planning and development. We sell approximately 30% to 50% of our completed GFA of trade center units and all of our completed GFA of our residential units and commercial facilities in order to recover our capital expenditures, while generating recurring income from the unsold portions to ensure sustainable long term revenue. We also employ a prudent development strategy on an overall basis. Since our first project in Shenzhen began to provide sustainable cash flow and revenues, we have raised funds for our expansion through our initial public offering in 2009 and various debt offerings to finance investment in our other projects in Nanchang, Nanning, Xian, Zhengzhou, Harbin, Hefei and Chongqing. As such, we tried to ensure that we have sufficient funding, experience and resources prior to expanding the phases or locations of our investments and operations.

## Our Strategies

Our objective is to strengthen our position as one of the leading developers and operators of large-scale, integrated logistics and trade centers in the PRC. We intend to implement the following strategies:

### *Differentiate project positioning and functions across our eight projects*

Subject to the economic status of surrounding regions, the industry basis of the respective cities, the demand for our products and services and supportive government policies, we have adopted a custom tailored approach of differentiating product functions, business offerings and project layouts across our eight projects. Economic development in China showed disparities across regions in 2016. As such, local governments took varying development approaches and extended their support to industries with comparative advantages in their respective regions. As an influential market player in the regions in which we operate, we took full advantage of their respective local strengths and implemented differentiated strategies in different projects. For example:

- *China South City Shenzhen* — Due to the rapid growth of cross-border E-commerce business in China in recent years, we have successfully positioned China South City Shenzhen as a cross-border E-commerce hub, attracting a number of leading domestic cross-border E-commerce enterprises to our project. Its outlet has also become an influential outlet player in Southern China, with increasing visitor traffic and enhanced market position.

- *China South City Zhengzhou* — Located at the heart of an intricate network of transportation in Zhengzhou, which has long been a major logistics hub in Central China, it has become our largest project, in terms of the number of SME occupants and GFA completed. We intend to capitalize on our competitive advantages in location, facilities and scale to strengthen its core market position for trading in Central China for industries such as automobile and parts, machinery and hardware and building materials.

- *China South City Nanning* — Strategically located in the economic and political center of ASEAN, China South City Nanning is poised to capitalize on the increasing importance of cross-border trading between China and ASEAN countries. The China-ASEAN Expo and Light Industrial Exhibition has been held at China South City Nanning for six consecutive years and attracted numerous visitors and a number of local government bodies, reflecting its importance in the local economic and political life.

- *China South City Xi'an and Harbin* — Based on their respective locations, we aim to further expand their reach to cover Western and Northern China, respectively.

- *China South City Nanchang* — With support from the local government, it has strived to become an important platform embodying the provincial initiative of "Go Global".

### *Develop each of our projects in phases and optimize property mix to balance timely cost recovery*

Although each of our projects has a sizeable planned GFA, we develop each of them in phases in respect of acquiring land and developing and constructing the facilities. This allows us to lower the capital expenditures incurred in any given period and lowers our execution risk. We intend to achieve an optimal mix of properties generating long-term recurring income and capital appreciation with properties generating profit from sales. In view of the large scale of our projects, we intend to continue to develop our projects in phases, and to vary our property mix, so as to cater to local market conditions and demand as well as to generate cash flows for project development. We expect to sell no more than half of our trade center units, and all of our residential properties.

***Continue to grow our recurring businesses for sustainable development and enhance cost control***

Recurring businesses, which include rental, property management, E-commerce, logistics and warehousing services, outlet operations and other services, have been part of our key initiatives contributing to our sustainable and long term development. We plan to continue to grow our recurring businesses to provide a more stable and diversified mix of revenue stream in the future. As our recurring businesses mature, we may seek to unlock their latent value by seeking independent listing of the shares or fund raising platform of such businesses to support their development strategies. For example, in November 2015, the shares of HOBA Furnishing, one of our recurring businesses, were quoted on the National Equities Exchange and Quotation System in China.

In addition, we also plan to continue to implement cost control measures such as more stringent cash collection control and reduction in our sale and administrative staff to improve our overall profitability in the long term.

***Optimize occupancy rates, rental rates and traffic flow in our existing and planned trade centers***

We plan to optimize occupancy rates, rental rates and traffic flow in our existing and planned integrated logistics and trade centers by implementing the following initiatives:

- *Provide preferential rental terms to optimize occupancy rates and increase rental rates as occupancy rates increase.* Our operating strategy at our integrated logistics and trade centers is to achieve high occupancy rates and attract a high-quality tenant base first and then increase rental rates steadily as occupancy rates increase. We attract quality occupants to our trade centers by offering preferential rental rates and other more attractive leasing terms than those offered by our competitors, such as rent-free periods based on advance rental payments made by occupants. We generally increase rental rates after the expiration of the initial lease agreement, by which time we believe our occupants who have established their business in our trade centers and are benefiting from the full range of integrated logistics, trade and ancillary facilities will have strong incentives to renew their leases.

- *Leverage our outlets to promote traffic flow*. We expect that we will be able to increase our occupancy rates and facilitate more traffic through our trade centers by leveraging our outlet operations. Upon completion of the acquisition of HOBA Furnishing, we also expect to leverage their customer base and operational networks to promote traffic flow and increase occupancy rates at our trade centers. See — "Five Pillars of Ancillary Services — Outlet Center Operations and Furnishing Centers — Acquisition of Shenzhen HOBA Home Furnishings Chain Store Co., Ltd.."

- *Consolidate existing wholesale markets*. Several of our projects are located in cities where local governments have plans to relocate and upgrade traditional wholesale markets. We expect this will help us boost our occupancy rates at a faster pace in those cities as we will be able to provide improved facilities in response to existing demand by local occupants.

- *Continue to offer integrated logistics services to increase customers' access to the global market place.* We intend to optimize our offerings of integrated logistics services, including warehouse, liaison and on-site logistics services and transportation providers, in order to facilitate the individual needs and order requirements of trade center occupants and their customers. By integrating logistics and trade functions and providing ready access to necessary services for trade center occupants and their customers, we believe we are able to outperform our competitors in advancing and expediting the business interests of trade center occupants.

- *Attract and secure high quality long-term occupants.* We plan to continue to use our strong relationships with industry trade associations and manufacturers, as well as our own in-depth knowledge of the industries represented at our trade centers, to secure high-quality, domestic and international suppliers of finished and unfinished goods as part of our tenant base. We believe that securing such high-quality occupants will increase the stability of our tenant base and help raise the profile and reputation of our trade centers, as well as increase the flow of trade within these centers, thereby enhancing our projects' status as centers of trade and ultimately allowing us to augment rental rates and sales prices for our trade center units.

- *Leverage and improve supporting infrastructure.* We will seek to enhance the market demand for our trade center units by leveraging and improving the auxiliary services available to our trade center occupants and their customers. In developing supporting infrastructure at our eight trade center projects, we have entered into strategic alliances and arrangements with local governments. Under the terms of our master agreements and the corresponding supplementary agreements, we have secured government support in the development of the transportation infrastructure surrounding our trade centers. For example, China South City Nanchang is located approximately 1.2 kilometers from the Nanchang West railway station, and China South City Zhengzhou is located approximately 16 kilometers from the nearest airport. We will continue to cooperate with the local government to continue improving the transportation infrastructure surrounding our trade centers.

***Further develop our five pillars of ancillary services to support and enhance our projects***

Our trade centers, ancillary residential properties and commercial facilities are supported by our five pillars of ancillary services. By providing an E-commerce platform, logistics services, property management services, outlet and furnishing center operations and exhibition and conference services, we expect to continue to distinguish ourselves from traditional wholesale markets and other trade centers. These businesses not only add value to our facilities, but provide sources of revenue. We expect to further develop services to increase visitor traffic flow through our projects and provide conveniences for our customers.

- We plan to enhance our E-commerce platform, namely CSC86.com, to give our customers an online platform for promoting their products and businesses beyond the limitation and geographical reach of their physical stores.

- We plan to continue to enhance our property management services to help maintain a safe, efficient and comfortable business environment for occupants of our projects.

- We plan to continue to expand our logistics and warehousing network to help those SMEs operating within our projects to reduce their logistics and distribution costs and create key cost advantages.

- We plan to continue to develop and enhance our Logistics Information Exchange Platform ("LIEP"), which helps cargo owners match their freight plans more effectively and cut logistics costs by utilizing empty trucks of Heavy Goods Vehicles ("HGV") on their return journeys. With the increasing maturity of the nationwide network of our projects, the demand for our LIEP services from SMEs and HGV drivers has gradually increased.

- We plan to continue to grow our outlet and HOBA Furnishing operations to continue to attract and increase traffic at our projects.

- We plan to continue to strengthen our one-stop exhibition platform for organizing exhibitions and conferences to enhance our reputation and facilitated traffic flow through our trade centers.

By expanding these services to each of our locations, we believe we can attract additional customers to our trade centers, strengthen the loyalty of our existing customers and ensure a stable source of recurring income.

*Continue to expand our operations by broadening our industry coverage*

We have expanded our operations at each of our projects by broadening our industry coverage, which ranges from raw materials such as textiles to finished goods such as leather goods and clothing and themed products. For example, in order to gain access to the home furnishings industry, we acquired a 75% equity interest in HOBA Furnishing, which has ten home furnishings stores in six cities across China. In addition, we also operate outlets and themed trade centers to further enhance our industry coverage.

## Our Projects

The following table summarizes GFA information for our projects as a whole, including trade center, residential and other ancillary facilities, as of March 31, 2016 (except as indicated below).

| | Completed Properties(1) | | Properties Under Development(2) | Properties to be Completed by FY2016/17 | Properties Planned for Future Development on GFA Aquired(3) | Total planned GFA(4) | Total planned GFA based on land already acquired(5) | |
|---|---|---|---|---|---|---|---|---|
| | Sold | Unsold | Total | Estimated | Estimated | | | |
| | (GFA in sq.m.) | (GFA in sq.m.) | (GFA in sq.m.) | (GFA in sq.m.) | (GFA in sq.m.) | (GFA in sq.m.) | (GFA in sq.m.) | (of Total planned GFA) |
| China South City Shenzhen . . . . . | 774,600 | 1,540,000 | 242,200 | 77,200 | 87,200 | 2,644,000 | 2,644,000 | 100% |
| China South City Nanchang . . . . . | 784,200 | 746,700 | 711,600 | 271,700 | 2,422,700 | 7,297,000 | 4,665,200 | 64% |
| China South City Nanning . . . . . | 334,600 | 1,053,200 | 558,500 | 178,500 | 533,700 | 4,880,000 | 2,480,000 | 51% |
| China South City Xi'an . . . . . . . | 601,800 | 754,200 | 456,400 | 199,400 | 2,343,600 | 17,500,000 | 4,156,000 | 24% |
| China South City Harbin . . . . . . | 230,300 | 625,300 | 1,340,900 | 977,200 | 2,551,500 | 12,000,000 | 4,748,000 | 40% |
| China South City Zhengzhou . . . . | 1,033,800 | 1,465,500 | 1,265,000 | 243,700 | 1,405,700 | 12,000,000 | 5,170,000 | 43% |
| China South City Hefei . . . . . . . | 811,900 | 428,200 | 1,822,400 | 285,900 | 2,138,500 | 12,000,000 | 5,201,000 | 43% |
| China South City Chongqing . . . . | 206,400 | 951,700 | 151,300 | 151,300 | 4,295,700 | 13,500,000 | 5,605,100 | 42% |
| Total . . . . . . . . . . . . . . . | 4,777,600 | 7,564,800 | 6,548,300 | 2,384,900 | 15,778,600 | 81,821,000 | 34,669,300 | 42% |

(1) Represents properties for which construction of all constituent buildings has been completed and which have been sold, leased, or are available for lease or sale.

(2) Represents properties for which we have obtained land use rights certificates and have planned or commenced construction.

(3) Represents properties with respect to which we have entered into a master agreement or similar agreement with, or have been awarded a competitive bid by, relevant regulatory authorities and which have been approved in accordance with our internal procedures.

(4) Based on management estimates and subject to the terms of land grant certificates upon acquisition of the land.

(5) As of March 31, 2016.

In the year ended March 31, 2016, the Group achieved total Contracted Sales of approximately HK$6.6 billion.

For the fiscal years ended March 31, 2014, 2015 and 2016, we entered into contracted sales (net of any cancelled contracted sales) for our projects with an aggregate contract value of approximately HK$14,106.0 million, HK$11,321.1 million and HK$6,628.1 million, respectively, which corresponded to an aggregate contracted GFA of approximately 1,747,800 sq.m., 1,253,800 sq.m. and 784,500 sq.m., respectively. The decreased in our Contracted Sales over the period was mainly due to the general slow down in the PRC economy. We generated Contracted Sales of approximately HK$1,920.0 million for the three months ended June 30, 2016, which accounted for approximately 25% of the mid-range of our sales target of approximately HK$7,500 million to HK$8,500 million for the fiscal year ending March 31, 2017.

## Five Pillars of Ancillary Services

We will continue to enhance our five pillars of ancillary services, based on experience gained from China South City Shenzhen, in a bid to complement our unique and replicable business model, to better serve our trade center occupants and customers, and to allow such persons to enjoy a mutually-beneficial operation environment.

### *Logistics and Warehousing Services*

Our logistics services and facilities consist of a network of warehouses and one-stop integrated inbound and outbound logistics facilities. We aim to extend our warehouse and freight forward services to online management platforms and supply chain management services in order to build a logistics management platform that spans across our projects. There are three types of warehouses: bonded, unbonded and export supervised warehouses, which are utilized by trade center occupants and other customers prior to delivering their goods to international or domestic customers. Customs officials are located on-site at bonded warehouses to complete the required customs procedures. Shenzhen Qianlong, our subsidiary, provides logistics liaison services to our trade center occupants and customers, and assists them with third-party logistics services providers that are located on-site.

Logistics and warehousing services formed an important part of our strategic resources. We have continued to expand our logistics and warehousing network, and have successfully positioned our projects as the potential logistics and distribution hubs in their respective regions. By becoming regional logistics hubs, we are able to help those SMEs operating within our projects to reduce their logistics and distribution costs and create key cost advantages. In addition, with the increasing maturity of the nationwide network of China South City projects, the demand for LIEP services from SMEs and HGVs drivers gradually increased. LIEP helps cargo owners match their freight plans more effectively and cut logistics costs by utilizing empty truckloads of HGVs on their return journeys. Income from our logistics and warehousing services has steadily increased from approximately HK$24.8 million to HK$95.8 million and HK$143.4 million for the fiscal years ended March 31, 2014, 2015 and 2016, respectively.

### *E-Commerce Services*

Through our online platform, available at CSC86.com, we provide trade center shop operators and SMEs in the related industries a platform to facilitate online trading. Our online platforms enable our trade center shops to benefit from the combined advantages of physical stores and virtual shops for both business-to-business and business-to-customer trading.

In addition, we have continued to strengthen the development of our integrated O2O platform. In particular, with a view to enhancing its support for SMEs, we upgraded our E-commerce platform CSC86.com by enriching our online trading and payment services functions. We launched trial online membership program in early 2014 which was well received by our customers.

Furthermore, by integrating internet technology with traditional industries, our "Internet Plus" strategy sets out to fuel China's economic growth. "Internet Plus" is a core strategy of our fourth-generation integrated logistics and trading platform, with E-commerce services serving as a key tool to help SMEs raise their competitiveness. For the fiscal year ended March 31, 2016, we continued to reinforce this strategy and upgrade our fourth-generation integrated logistics and trading platform, thereby increasing SMEs' operating efficiency and competitiveness. Leveraging our B2B platform, CSC86.com, and strategic cooperation with Tencent Group, we further strengthened our E-commerce services such as our online payment function to facilitate transactions between buyers and sellers during the fiscal year ended March 31, 2016.

We intend to continue to cooperate with Tencent Group to explore providing certain value-added services to our occupants and Tencent Group's users, which could include:

- mutually exploring cooperative opportunities with respect to online outlet services for branded goods by leveraging our resources with respect to physical outlet services for branded goods and Tencent Group's E-commerce platform;

- jointly collaborating to develop our retail business (such as our outlets and HOBA Furnishing) to provide an integrated online and offline retail service experience through Tencent Group's platform;
- jointly collaborating to provide Tencent Group's online payment services to our occupants and customers; and
- jointly collaborating on the planning of joint warehousing facilities and logistics arrangements for E-commerce businesses.

In addition, the Tencent Group also provides information technology and consultation support to our E-commerce and other online services which has giving us access to premier IT talent in China.

For further information, please see "Principal Shareholders — Investment by the Tencent Group."

***Exhibition and Conference Facilities***

China South City Shenzhen has two exhibition centers as well as exhibition facilities in our Phase Two trade centers which we, along with third-party event organizers and planners, utilize for industry exhibitions, conferences, conventions, meetings and banquets. Third-party event organizers and planners include trade associations for those industries represented within our trade centers. These exhibition facilities are used to showcase the products offered for sale by trade center occupants to potential customers and to attract potential occupants and customers of occupants to visit China South City Shenzhen. We had hosted events such as the Shenzhen Industrial Fair and the Hong Kong, Macau and Taiwan Commodity Fair at these facilities.

*Events and Exhibitions*

As part of our general marketing efforts, we periodically sponsor and participate in events throughout China, such as trade seminars and exhibitions, in order to enhance our brand name and promote our business. Typically, the events and exhibitions we sponsor have been located in the same area as our projects. In a joint effort with different government bureaus, we organized the 5th Industrial Fair, The Hong Kong, Macau and Taiwan Commodity Fairs and six consecutive China-ASEAN Expo and Light Industrial Exhibitions and a number of trade exhibitions and conventions at our projects.

We have organized trade fairs and events to promote our opening and boost traffic flow. For instance, The Ethnic and Cultural Festival cum Trade Fairs was held in China South City Nanning in April 2015. The 16-day event attracted a large number of participants to the project. Meanwhile, the 8th (Guangxi) Nanning Spring Tea Festival and the 1st International Automobile Exhibition were also held in China South City Nanning. These activities significantly boosted the sales of occupants selling tea and teaware, as well as those automobile exhibitors, and created business opportunities for other occupants in China South City Nanning. The 19th Investment & Trade Forum for Cooperation between East & West China ("ITFCEWC") cum the Silk Road International Expo were held in Xi'an in May 2015. During the event, a thematic program known as the "Silk Road Commodity Trade Fair" was undertaken by China South City Xi'an to exhibit numerous commodities produced by the countries along the Silk Road. Leveraging its exhibition and conference facilities and easily accessible logistic network, China South City Xi'an draws visitors to the project and raises its brand awareness on the one hand, while contributing efforts to the integration of the resources of the countries along the Silk Road and the promotion of their full cooperation on the other hand, driving development in trade and logistics industry in Xi'an.

By raising our profile among domestic and international trade and industry associations, chambers of commerce, academic institutions, manufacturers and trading companies, we believe that we enhance our brand recognition, display the strengths and advantages of our projects, assist our existing occupants in attracting customers and expand our network with domestic and international businesses.

***Outlet Operations and Furnishing Centers***

We have operated our first outlet in Shenzhen since 2011 and have maintained a steady growth with increases in both operating GFA and number of brand names. Building on the successful outlet operation in China South City Shenzhen, we implemented trial runs at our projects in Nanning, Nanchang, Xi'an and Harbin, with encouraging results. We believe the brand awareness of China South City's outlet business will be further strengthened as our projects become more mature. As at March 31, 2016, over 350 domestic and international brands were located in these outlets, occupying an operating GFA of approximately 181,700 sq.m.

During the fiscal year ended March 31, 2016, we generated income from outlet operations of HK$136.9 million, which was primarily contributed by the outlet in China South City Shenzhen. Other than revenue contribution, the outlet's successful operation has boosted the brand recognition, increased visitors traffic and generated operating cash flow for us.

*Acquisition of HOBA Furnishing*

In light of the prospects of the home furnishing business in China and in order to speed up the establishment of this business across our projects, our indirect wholly-owned subsidiary, Nanning China South City Company Limited, entered into a subscription agreement pursuant to which it conditionally agreed to acquire 75% of the issued share capital of HOBA Furnishing, for a consideration of RMB522.2 million on July 29, 2013. HOBA Furnishing is primarily engaged in the operation of ten home furnishing stores in six cities across China for the supply of home furnishing products and accessories as at March 31, 2016.

***Property Management Services***

In order to ensure project safety and sustainability, we have established property management teams that are stationed at each of our projects when construction commences to provide professional advice regarding sustainability and specific needs at each project. We also enter into management agreement with our trade center shop occupants for property management services. We provide property management services to occupants of our projects through our subsidiary, Shenzhen First Asia Pacific. Our property management services include security, cleaning, repair and maintenance of equipment and facilities, management of parking lots and transportation within our projects. We believe our additional efforts to improve fire prevention, security, environmental stewardship, maintenance services at our trade centers differentiates us from other wholesale markets. We engage a professional cleaning company and other service providers to perform the cleaning and major repair and maintenance services. Our own employees provide the security, repair and maintenance, management of parking lots and transportation services. For the fiscal year ended March 31, 2016, our revenues from management fees were HK$247.7 million. We intend to provide similar property management services and to adopt a similar model of operation upon commencing operations at our other projects.

**China South City Shenzhen**

China South City Shenzhen is a large-scale, integrated logistics and trade center for domestic and international suppliers, manufacturers and distributors in a comprehensive range of manufacturing industries. China South City Shenzhen is located in the Longgang District, approximately 20 kilometers outside of the city center of Shenzhen in Guangdong Province. When fully completed, China South City Shenzhen is expected to occupy approximately 1.1 million sq.m. of land, supporting a planned GFA of approximately 2.6 million sq.m.

Positioned as a modern large-scale integrated logistics and trading platform to serve the Pearl River Delta region, China South City Shenzhen covers a wide spectrum of products, ranging from raw materials to finished products of various industries and themed products, complemented by comprehensive ancillary facilities and services including offices, residential facilities, factory outlets, conference and exhibition facilities, both bonded and common warehousing, hotels and restaurants, banking and financial services, on-site logistics services in couple of quality testing services, property management, E-commerce platform and on-site government bodies.

China South City Shenzhen is our first project which offers a comprehensive and mature wholesale trading platform for SMEs. The project has become a successful model case for wholesale market transformation and modernization under the process of urbanization. During the fiscal year ended March 31, 2016, China South City Shenzhen further diversified its business operations and enhanced the various functions of its fourth-generation integrated logistics and trading platform. In particular, the outlet in China South City Shenzhen became an influential outlet player in Southern China, with increasing visitor traffic and enhanced market position. Furthermore, the cross-border E-commerce business in China has experienced rapid growth in recent years. Taking advantage of its competitive strengths in logistics facilities and broad customer base, China South City Shenzhen has become a cross-border E-commerce hub and successfully attracted a number of leading domestic cross-border E-commerce enterprises to move into its units.

With the local government further advancing the development of Longgang District as an innovation center in the east of Shenzhen, the district's ancillary facilities such as logistics, healthcare and education will continue to improve and bring more convenience to occupants of China South City Shenzhen. In addition, transportation facilities around the project have been improving as well. According to Shenzhen Metro Planning, the subway line 10 which will pass through China South City Shenzhen has commenced construction in 2015 and is expected to be open for traffic by 2020. Upon completion, this subway line will further improve accessibility, generate more business opportunities and increase visitor traffic for our project. At present, operations of China South City Shenzhen cover industries such as textile and clothing, leather and accessories, electronic parts, printing, paper products and packaging, metals, chemicals and plastics materials, outlets and home furnishing.

For the fiscal year ended March 31, 2016 China South City Shenzhen recorded total Contracted Sales of approximately HK$695.9 million for a GFA of approximately 54,500 sq.m. as compared to approximately HK$652.0 million for a GFA of approximately 50,600 sq.m. and HK$491.3 million for GFA of approximately 34,300 sq.m. for the fiscal years ended March 31, 2015 and 2014, respectively.

***Property Developments at China South City Shenzhen***

Phase One and Phase Two of China South City Shenzhen commenced operations in December 2004 and in 2009, respectively and part of Phase Three of China South City commenced operations in 2013. Phase One of China South City Shenzhen primarily serves suppliers of raw materials for five complementary light manufacturing industries: (1) textile and clothing; (2) leather and accessories; (3) electronic accessories; (4) printing, paper and packaging; and (5) metals, chemicals and plastics. Phase Two of China South City Shenzhen primarily houses manufacturers and distributors of finished goods and small commodities, themed products, regional goods, electronics and outlets. Phase Three of China South City Shenzhen included all trade centers, offices, warehouse and other ancillary facilities, which served for the trading of electronic goods, gadgets and accessories. As at March 31, 2016 construction of GFA of approximately 242,200 sq.m. is underway, of which approximately 77,200 sq.m are expected to be completed for the fiscal year ending March 31, 2017.

Our leaseable area consists of trade center units retained by us for rental income and capital appreciation, trade center units that have been sold subject to separate lease agreements with the purchasers of these units and trade center units that have been sold but which we are still able to lease pursuant to sales agreements.

*Occupant Mix*

Our occupants include an array of domestic and international manufacturers, suppliers and dealers seeking to display, trade and promote their raw material and finished goods in multiple industries in our trade centers and outlet. These occupants include both domestic companies and international companies seeking to gain a share of the domestic industrial trade market. We operate outlets to serve the demand for branded products and to promote traffic through our project.

*Occupancy Rates*

Total occupancy rates for our completed and launched rentable GFA at Phase One, Phase Two and Phase Three trade centers and shops range from 58% to 92% as of March 31, 2016. We will continue to promote our unleased trade center units and target high-quality occupants to increase our occupancy rates.

*Rental Rates*

The monthly average effective rent per sq.m. for our completed and launched Phase One, Phase Two and Phase Three trade centers range from HK$35/sq.m. to HK$55/sq.m. as of March 31, 2016.

***Ancillary Facilities and Services***

*Overview*

China South City Shenzhen has a comprehensive range of supporting infrastructure and services, including on-site warehouse and logistics services as well as liaison services with third-party logistics providers, in order to facilitate access and integration into the global supply chain. Although much of this supporting infrastructure is already in place for the benefit of occupants of China South City Shenzhen, we plan to expand the supporting infrastructure to further support the needs of our occupants.

*Hotel, Food and Beverage Facilities*

We have a four-star hotel in China South City Shenzhen, which we have leased to a third party for operation and earned rental income since September 2012. In addition, there are also hotels and restaurants, including McDonald's and KFC, available to serve our customers' and occupants' needs at China South City Shenzhen.

*Other Commercial Facilities and Services*

China South City Shenzhen also features: branch offices of government agencies; branches of various PRC banks, including Bank of China, Industrial and Commercial Bank of China, Agricultural Bank of China, Ping An Bank, Postal Savings Bank of China, China Construction Bank and Min Sheng Bank; office facilities; telecommunications companies, such as China Mobile and China Telecom; a quality control services center for the textile industry; and industry associations and other providers of professional services, such as tax consultants and insurance companies.

*Residential Services*

We have a residential facility, West Garden, which provides accommodation for our occupants at China South City Shenzhen. The West Garden residential facility is located near the Pinghu Ecotypic Garden, an area with natural greenery and a reservoir. The West Garden is a 1,628-unit residential apartment complex consisting of three residential towers and covering a leaseable GFA of approximately 114,000 sq.m. and underground car parking and ancillary area of approximately 26,500 sq.m.

With the completion of the Phase Three multi-functional trade center complex in March 2013, apartments units with a GFA of 64,000 sq.m. are also available to serve our occupants.

***Transportation Network***

China South City Shenzhen is located within the Greater Pearl River Delta's integrated and extensive transportation network of airports, railways, port facilities for ocean shipping and highways.

*Airports.* There are four airports in the Greater Pearl River Delta, including Hong Kong International Airport, Guangzhou Baiyun International Airport, Shenzhen Baoan International Airport and Zhuhai International Airport. China South City Shenzhen is located within 35 kilometers of the nearest of these airports and no more than 180 kilometers from the farthest of these airports.

*Railways.* There are several railway lines in the Greater Pearl River Delta that connect to key railway arteries in China, including the Beijing-Guangzhou Railway and the Beijing-Kowloon Railway. There are also railways that connect cities within the Greater Pearl River Delta, including the Ping Nan Railway, which connects Pinghu and Nanshan, and the Ping Yan Railway, which connects Pinghu and Yantian. China South City Shenzhen is located within 20 kilometers of the Pinghu Railway Station, which connects to each of these railway lines.

*Highways.* All major cities in the Greater Pearl River Delta are linked by major highways, and the highway network is rapidly expanding. Projects in progress, such as the Shenzhen Bay Bridge, a 5.5 kilometer bridge between Shekou and Hong Kong, the Hong Kong-Zhuhai-Macau Link, a 35 kilometer bridge connecting Hong Kong, Zhuhai and Macau, and the Pearl River Bridge project, a 29 kilometer bridge between Hong Kong and Macau, should further connect Hong Kong, Macau, Zhuhai and Shenzhen. In addition, exits for the Jihe expressway and the Qingping expressway near China South City Shenzhen were built with the support of the Shenzhen municipal government.

*Metro.* According to Shenzhen Metro Planning, the subway line 10 which will pass through China South City Shenzhen has started construction in 2015 and is expected to commence operations by 2020. Upon completion, this subway line will further improve accessibility, generate more business opportunities and uplife visitor traffics for our project.

*Port Facilities.* Some of the world's largest, busiest and most efficient container ports are located in the Greater Pearl River Delta, including the Kwai Chung Container Terminal in Hong Kong, which is one of the busiest port in the world in terms of volume, the Yantian Port in Shenzhen, the Shekou Port in Shenzhen, the Huangpu Port in Guangzhou and the Nansha Port in Guangzhou. China South City Shenzhen is located within 30 kilometers of these ports.

**China South City Nanchang**

We entered into a master agreement with the municipality of Nanchang, the capital of Jiangxi Province, in February 2007 and several supplementary agreements thereto to develop integrated logistics and trade centers in that region. In addition, we expect the office relocation plan of the Jiangxi provincial government to the vicinity of China South City Nanchang will increase the business potential of our trade centers and ancillary facilities in Nanchang.

China South City Nanchang is located at the transportation hub for the Yangtze River Delta and the Pearl River Delta Economic Zone. Situated in Honggutan New District of Nanchang, the capital of Jiangxi Province, the project is readily accessible to suppliers, manufacturers and merchants via major highways, the largest port on the Gan River and a complete freight network which includes a cargo marshal yard, a container terminus and an international airport, coupled with Nanchang West Railway Station — a principal high-speed rail station located just 1.2 kilometers from China South City Nanchang and commenced operation successively since September 2013. As a new business center of Nanchang, Honggutan New District's administrative, commercial and cultural functions are becoming more apparent by the day. In addition, the gradual completion of life-supporting amenities within the new district is driving visitor traffic and generating business opportunities, laying a solid foundation for the development of China South City Nanchang.

China South City Nanchang has a total planned land area of approximately 2.81 million sq.m. and a total planned GFA of approximately 7.30 million sq.m. The trial operations of China South City Nanchang cover industries such as small commodities, textile and clothing, leather and accessories, healthy and green products and outlets. As the first provincial-level E-commerce Model Base in Jiangxi and University Students' E-commerce Business Incubator in Nanchang, China South City Nanchang has successfully attracted numerous E-commerce enterprises to move in since its establishment in 2014 and co-operated with tertiary institutes. Through a profound integration of its resources in wholesale and E-commerce, it has created a closer co-operation between the E-commerce startups and manufacturing enterprises, thereby helping SMEs within our project to transform and upgrade.

As at March 31, 2016, China South City Nanchang has a total GFA of approximately 1.53 million sq.m. at Phase One completed, including approximately 900,600 sq.m. of trade centers, approximately 585,800 sq.m. of residential ancillaries and approximately 44,500 sq.m. of logistics and warehousing facilities. Construction of Phase Two of China South City Nanchang has commenced.

For the fiscal year ended March 31, 2016, China South City Nanchang recorded total Contracted Sales of approximately HK$905.3 million as compared to approximately HK$1,350.3 million and approximately HK$1,118.2 million for the fiscal years ended March 31, 2015 and 2014, respectively.

***Transportation Network***

China South City Nanchang is located within Nanchang's Honggutan New District. Located at the intersection of the Jingjiu and Zhegan Railways, Nanchang is easily accessible via highway and airport and maintains the largest port on the Gan River. As a result of its location, Nanchang today represents one of China's important transportation hubs.

*Airports.* Changbei Airport, which provides access to over 25 destinations including Beijing, Hong Kong, and Guangzhou, is located approximately 30 minutes from China South City Nanchang.

*Railways.* Nanchang is located at the vital intersection of the Jingjiu and Zhegan Railways. Currently, Nanchang is the only capital city situated on the Jingjiu Railway line. The Nanchang West Railway Station, a principal high speed railway station is located only 1.2 kilometers away from our project.

*Highways.* China South City Nanchang is easily accessible via highway and is located next to the Waihuan Way, Changzhang Express Way and 320 National Road.

*Port facilities.* Nanchang is the largest port on the Gan River. With access to the Gan River, Fu River, Xiang Lake, Qingshan Lake and Aixi Lake, Nanchang is also connected to areas such as Poyang, Duchang, Ruihong, Zhouxi, and Lianhu.

**China South City Nanning**

We entered into a master agreement and several supplementary agreements thereto with the Nanning City Jiangnan District People's Government in Guangxi Zhuang Autonomous Region in December 2007 to develop integrated logistics and trade centers in that region. China South City Nanning is expected to offer a comprehensive logistics and trade center project for various industries to serve local demands, commercial facilities which include an exhibition center, warehouses, offices and a hotel, as well as residential properties, for accommodation needs, upon completion.

China South City Nanning is located at Nanning, the capital of the Guangxi Zhuang Autonomous Region and a critical gateway between China and ASEAN countries. It is easily accessible by railway stations, highways and an international airport. Strategically located in close proximity to Southeast Asia and enjoying the advantage of a tariff waiver on cross-border trade activities within the China-ASEAN Free Trade Area, China South City Nanning endeavors to serve as a key hub for cross-border trade catering to the strong demand from the Northern Bay Region and Southeast Asia. During the fiscal year ended March 31, 2016, the China-ASEAN Expo and Light Industrial Exhibition took place in China South City Nanning for the sixth consecutive year and attracted numerous visitors. Furthermore, a number of local government bodies have moved into China South City Nanning, reflecting its importance in the local economic and political life.

China South City Nanning has a planned net land area of approximately 1.83 million sq.m. and a total planned GFA of approximately 4.88 million sq.m. The project is under trial operations and continues to cultivate the market and strengthen marketing efforts during the fiscal year ended March 31, 2016. Through organizing a series of exhibitions — such as the China-ASEAN Expo and Light Industrial Exhibition, International Automobile Exhibition, Food Festival and Spring Tea Festival — the project is attracting increasing market popularity and is enhancing its brand recognition locally. During the fiscal year ended March 31, 2016, residential properties launched by China South City Nanning received an overwhelming response from the market. With government bodies, major banks, hotels and cinema moving in, the ancillary facilities and services of the project have been further enhanced. To assist SMEs in resolving business loan difficulties, China South City Nanning launched, on a trial basis, a micro-credit service for SMEs in the project, providing them financial support for the development of businesses during the fiscal year ended March 31, 2016. The trial operations of China South City Nanning cover industries such as textiles and clothing, small commodities, ASEAN products, HOBA Furnishing, tea and teaware and outlets.

As at March 31, 2016, China South City Nanning is currently in Phase One construction and has a total GFA of approximately 1.39 million sq.m. completed, including approximately 894,600 sq.m. of trade centers, approximately 456,400 sq.m. of residential ancillaries and approximately 36,800 sq.m. of logistics and warehousing facilities.

For the fiscal year ended March 31, 2016, China South City Nanning recorded total Contracted Sales of approximately HK$642.8 million, as compared to approximately HK$902.2 million and approximately HK$809.4 million for the fiscal years ended March 31, 2015 and 2014, respectively.

In addition, a supplemental agreement for the change in the nature of land for the residential facilities in China South City Nanning was signed in December 2012 by Nanning Bureau of Land and Resources. On December 31, 2012 and February 28, 2013, we paid land grant fees in the aggregate of RMB533.5 million for the change in the nature of the land, which has a site area of 133,000 sq.m. and a planned GFA of 586,500 sq.m.

Pursuant to land grant contracts governing the use of land at China South City Nanning in 2010, our sales of logistics and trade centers and warehouse facilities is limited to 60% of the GFA of the properties located on the parcels of land on which these logistics and trade centers and warehouse facilities are located. This restriction does not apply to the properties that are built for residential, commercial and other uses. We intend to retain not less than 50% of the aggregate GFA of our trade centers for investment purposes.

***Transportation Network***

China South City Nanning is located within the Beibu Gulf Economic Cooperation Zone, with access to a network of airports, railways, port facilities for ocean shipping and highways. Nanning is situated in the south of Guangxi Zhuang Autonomous Region, adjacent to Guangdong Province and Macau, facing Southwest China and Southeast Asia. Nanning's position as a coastal city located between Southeast and Southwest China has fueled its development as a core logistics and trade center in the region and its proximity to the Vietnam border has allowed Nanning to develop strong business networks with the Southeast Asian markets.

*Airports.* Nanning Wu Xu International Airport, with flights from more than 30 local and international airlines, is located approximately 20 kilometers away from China South City Nanning.

*Railways.* Nanning is connected by several railways, including the Nakun Line, the Xianggui Line and the Qiangui Line and serves as an important hub for access to international railways connecting Vietnam, Cambodia, Malaysia and Singapore. In addition, the Nanning Railway Station is among the largest railway distribution stations in Southwest China and is approximately two kilometers south of China South City Nanning.

*Highways.* The network of highways and other thorough fares within Nanning are linked to the major highways of Southeast China, and also connect to Guangzhou and Hong Kong. In addition, Jiangnan County is the starting point of a number of national roads, including National Roads 320, 105 and 316, as well as major highways, including the Changjiu, Changgan and Xiwaihuan Highways.

*Port facilities.* Nanning is located next to the ports of Xijiang, Tingzi and Jinji from which goods are shipped regularly to and from Guangzhou, Zhuhai, Macau and Hong Kong.

**China South City Xi'an**

In November 2009, China South International entered into a project agreement for the Xi'an project. China South City Xi'an has a total planned land area of approximately 10.0 million sq.m. and a total planned GFA of approximately 17.5 million sq.m. As at March 31, 2016, the project is under Phase One construction and has a total GFA of approximately 1.36 million sq.m. completed, including approximately 1.28 million sq.m. of trade centers, approximately 55,800 sq.m. of logistics and warehousing facilities and approximately 23,300 sq.m. of ancillary facilities.

China South City Xi'an is located at the Xi'an International Trade and Logistics Park in Shaanxi Province. Built as a key project by the local government, the park is an open economic pilot zone and a core function area for modern service industry. Its aim is to become the largest international transit hub port and logistics distribution center along the Silk Road Economic Belt and to act as an important strategic platform for the "One Belt, One Road" initiative. The project is highly accessible and enjoys geographical advantages via the Xi'an City Expressway and Beijing Kunming Expressway, Lianyungang-Khorgos Expressway, Shanghai-Shaanxi Expressway, Baotou-Maoming Expressway and other national highways, forming an intricate spider network which opens to all directions.

Leveraging the strategic location of Xi'an International Trade and Logistics Park, China South City Xi'an enjoys access to an extensive transportation network connected to a railway container terminal and the largest bonded area in the northwestern region of China, along with two planned subway lines that cross the project site.

The trial operations of China South City Xi'an cover industries such as hardware and machinery, textile and clothing, leather and fur, outlets and Central China and ASEAN product exhibition center.

For the fiscal year ended March 31, 2016, China South City Xi'an recorded total Contracted Sales of approximately HK$380.0 million, as compared to approximately HK$1,019.1 million and approximately HK$1,683.3 million for the fiscal years ended March 31, 2015 and 2014, respectively.

***Transportation Network***

China South City Xi'an is located in the Xi'an International Trade and Logistics Park in Shaanxi Province. It is supported by a railway container terminal, the only and largest bonded area in northwestern China and the Xi'an Highway Port.

*Airports*. The nearest airport is Xian Xianyang International Airport, which is a major airport in northwestern China.

*Railways*. There are two planned subway lines that will cross the China South City Xi'an site. This will include a station next to our Phase One buildings, which is currently under construction. In addition, we are located near the Xi'an North Station, a high speed railway station that commenced operations in 2011.

*Highways*. Xi'an is a major highway hub which is part of the "7918" network. The Xi'an International Trade and Logistics Park is connected to the 210, 108, 310 and 312 National Roads.

*Metro*. According to Xi'an Metro Planning, the subway line 3, which is expected to commence operation by the end of 2016, will pass through China South City Xi'an. Upon completion, the subway line will generate more business opportunities and increase visitor traffic for the international Trade and Logistic Park and further enhance the value of China South City Xi'an.

**China South City Harbin**

China South City Harbin has a total planned site area of approximately 10 million sq.m. and a planned GFA of approximately 12.0 million sq.m. We have acquired approximately 4.75 million sq.m. attributable GFA. We believe that China South City Harbin's location in Northeast China will enable it to become a premier hub for cross-border trade with countries in Northeast Asia, and its proximity to the China-Russia border will bridge economic activities within the region.

Leveraging its own geographical location and local industries advantages, China South City Harbin will seize the opportunities arising from the area's emerging development potential and endeavor to become the largest integrated logistics and trade center in Northeast China. During the fiscal year ended March 31, 2016, with the support of the local government, China South City Harbin signed agreements with Russia Khabarovsk City Food Market and other merchants, actively building the core hub for Northeast Asia's green food exhibition and trade. In addition, China South City Harbin actively promoted the development of two major Sino-Russian trading projects, namely Sino-Russia Trading Building and Petersburg Hotel. For ancillary facilities, Phase One of Qianlong Logistics Park was completed and commenced operation during the fiscal year ended March 31, 2016, further catering to the logistics and warehousing demand from China South City Harbin and its surrounding businesses. Currently, the planned operations of China South City Harbin cover industries such as hardware and construction materials, green food, small commodities, hotel commodities and leather and fur outlets.

As at March 31, 2016, China South City Harbin is currently under Phase One construction and has a total GFA of approximately 855,600 sq.m. completed, including approximately 773,100 sq.m. of trade centers, approximately 59,200 sq.m. of logistics and warehousing facilities and approximately 23,300 sq.m. of ancillary facilities.

For the fiscal year ended March 31, 2016, China South City Harbin recorded total Contracted Sales of approximately HK$365.7 million, as compared to approximately HK$984.9 million and approximately HK$1,322.6 million for the fiscal years ended March 31, 2015 and 2014, respectively.

***Transportation Network***

China South City Harbin is located in the Daowai district of Harbin, the capital of Heilongjiang Province. This places it in a prime location to benefit from Sino-Russian trade.

*Airports*. The nearest airport is Harbin Taiping International Airport, which is one of the three major gateway airports in northeastern China. In December 2012, ten airlines provided routes to Russia from Harbin Taiping International airport, which accounted 85% of passengers to Russia traveling in the northeastern region of China.

*Railways*. Two planned subway lines cross the China South City Harbin site. Harbin East Station, which is located near to China South City Harbin, is one of the city's major railway stations.

*Highways*. The city's largest bus terminal is located near to China South City Harbin. In addition, Harbin is one of the 45 major highway transportation hubs in Heilongjiang Province.

*Port facilities*. Harbin Port is one of the eight major river ports in China, which provides access to four cities in Russia.

**China South City Zhengzhou**

China South City Zhengzhou is located in Zhengzhou, the capital of Henan Province. Given the emerging development potential in China's interior regions as well as the government's plans for urbanization and the relocation of old trade centers, we believe that China South City Zhengzhou will act as a convenient trading platform to promote trade among cities in central China. In April 2012, the Xin Zheng City Government and Shenzhen China South City Investment Holdings Co., Ltd. entered into a cooperative agreement for the development of an integrated logistics and trade center in Zhengzhou. China South City Zhengzhou has a planned total net land area of approximately 7.0 million sq.m. and a total planned GFA of approximately 12.0 million sq.m. As at March 31, 2016, China South City Zhengzhou is currently under Phase One development and has a total GFA of approximately 2.50 million sq.m. completed, including approximately 2.30 million sq.m. of trade centers, approximately 183,900 sq.m. of logistics and warehousing facilities and approximately 19,000 sq.m. of ancillary facilities.

China South City Zhengzhou is highly accessible located at the heart of an intricate network of transportation in Zhengzhou, which has long been a major logistics hub in Central China. China South City Zhengzhou has become our largest project, in terms of the number of SME occupants and GFA completed. Leveraging on our competitive advantages in location, facilities and scale, China South City Zhengzhou is poised to strengthen its core market position in trading in Central China. As a result, China South City Zhengzhou has become a large commercial hub for automobile and parts, machinery and hardware, building materials, small commodities and non-staple food industries in the area.

China South City Zhengzhou has received overwhelming support from the local government since its establishment. With more occupants moving in, China South City Zhengzhou will continue to strengthen its value-added services such as E-commerce, logistics and warehouse services and outlet operations to cater to the strong demand for integrated logistics and trade centers in China's inland regions, and provide a convenient trading platform to promote trade among cities in Central China.

For the fiscal year ended March 31, 2016, China South City Zhengzhou recorded total Contracted Sales of approximately HK$2,171.8 million, as compared to approximately HK$4,157.6 million and approximately HK$4,209.0 million for the fiscal years ended March 31, 2015 and 2014, respectively.

***Transportation Network***

China South City Zhengzhou is conveniently located and accessible by way of extensive transportation networks. It is 16 km away from Zhengzhou Xinzheng International Airport and two kilometers away from the Beijing-Guangzhou Railway Freight Station and the Beijing-Hong Kong-Macau Highway. According to Zhengzhou Metro Planning, the south extension of subway line 2, which commenced construction in 2014 and is expected to start trial operation in 2016, will pass through China South City Zhengzhou. Upon completion, this subway line will generate more business opportunities and visitor's traffic for the project.

**China South City Hefei**

China South City Hefei is located in Hefei, the capital of Anhui Province. In December 2012, China South City Management Company Limited entered into a framework agreement and cooperative agreement with the Hefei Government and Feixi County Government under which the Feixi County Government will provide a planned total net land area of approximately 10.0 million sq.m. with planned total GFA of approximately 12.0 million sq.m. in Hefei for the development of a large-scale integrated logistics and trade center. We have acquired approximately 5.20 million sq.m. attributable GFA by March 31, 2016 through the tendering process of the local government. As at March 31, 2016, China South City Hefei is currently under Phase One construction and has a total GFA of approximately 1.24 million sq.m. completed, including approximately 1.01 million sq.m. of trade centers, approximately 208,500 sq.m. of residential ancillaries and approximately 20,800 sq.m. of ancillary facilities.

Pursuant to land grant contracts governing the use of land at China South City Hefei in 2013, our sales of trade centers are limited to 50% of the total GFA of the properties located on the parcels of land on which these trade centers are located. This restriction does not apply to the properties built for residential, commercial and other uses. We intend to retain approximately 50% of the aggregate GFA of our trade centers for investment purposes.

As Hefei continues its role as the political, economic, cultural and financial center at the heart of East China, China South City Hefei aims to capture opportunities arising from the area and develop into a major large-scale integrated logistics and trade center in the region.

For the fiscal year ended March 31, 2016, China South City Hefei has continued construction of its ancillary facilities in response to rising market. The residential properties of China South City Hefei were well-received by the market and construction of logistics and warehousing facilities, outlets and HOBA Furnishing mall also progressed smoothly. Currently, the planned operations of China South City Hefei cover industries such as automobile and parts, hardware, electric appliances, building and decoration materials, clothing, small commodities, non-staple food and tea.

For the fiscal year ended March 31, 2016, China South City Hefei recorded total Contracted Sales of approximately HK$819.6 million, as compared to approximately HK$1,288.3 million and approximately HK$4,472.2 million for the fiscal years ended March 31, 2015 and 2014, respectively.

***Transportation Network***

China South City Hefei is strategically located in the Hefei Taohua Industrial Park, which is easily accessible via Hefei's railways, highways and river transport.

**China South City Chongqing**

China South City Chongqing is located at Banan District of Chongqing Municipality. On January 17, 2014, we entered into a framework agreement and a cooperative agreement with the Chongqing Municipal Government and the Banan District Government, respectively, pursuant to which we have, in principle, agreed to undertake the construction and development of a large-scale integrated logistics and trade center in Banan District, Chongqing Municipality with an estimated planned total net land area of approximately 6.3 million sq.m. and a planned GFA of approximately 13.5 million sq.m. Subject to the Banan District Government putting up the relevant land for tender, auction and the listing-for-sale process, we intend to bid for the land for our Chongqing project in phases, and accordingly, will develop the project in phases.

China South City Chongqing is currently under construction. The transportation network around the project has been developed rapidly, coupled with the growing maturity of business circles in Banan District, laying a good foundation for the future transportation convenience and commercial environment of the project. The planned operations of China South City Chongqing cover industries such as small commodities, hardware and machinery, non-staple food and tea, building and decoration materials, textiles and clothing and automobile and parts.

As at March 31, 2016, China South City Chongqing is under Phase One development with a total GFA of approximately 1.16 million sq.m. completed, including approximately 1.14 million sq.m. of trade centers and approximately 15,800 sq.m. of ancillary facilities.

For the fiscal year ended March 31, 2016, China South City Chongqing recorded total Contracted Sales of approximately HK$647.0 million, as compared to approximately HK$966.7 million for the fiscal year ended March 31, 2015.

## Master Agreements

We have signed master agreements and corresponding supplementary agreements with local government agencies in Shenzhen, Nanchang, Nanning, Xi'an, Harbin, Zhengzhou, Hefei and Chongqing, that set out each party's commitments and expectations and a proposed framework for the development of our projects. Under these master agreements and corresponding supplementary agreements, our primary obligations generally include purchasing land and developing certain infrastructure in the amount and manner set forth in the master agreements and commencing and completing project-related construction according to the timeframe set forth in the master agreements and corresponding supplementary agreements. The primary obligations of the local government agencies with whom we enter into master agreements and corresponding supplementary agreements generally include improving the infrastructure surrounding the project development site, obtaining land to be granted under the master agreements and corresponding supplementary agreements as well as relocating the existing residents on the land, compensating us for certain infrastructure costs assumed by us in construction of our projects, bearing certain costs for basic facilities associated with our projects, including facilities for the discharge of pollutants, water and electricity supply, communications lines and piping, and assisting us to obtain favorable treatment and necessary approvals from government authorities.

## Land Use Rights And Building Ownership Rights

There are two types of title registrations in the PRC: land registration and building registration. Land registration is evidenced by the issue of a land use rights certificate by the relevant authority. A land use rights certificate is the evidentiary legal document demonstrating that the registered land user has the lawful right to use the land during the term stated therein, including the right to assign, mortgage or lease the land. Building registration is evidenced by the issue of a building ownership certificate. The holder of a land use rights certificate who is issued a building ownership certificate holds land use rights and owns the building erected on the land. All holders of land use rights, and other rights in respect of the land, such as the right to buildings erected on the land, must register their lawful state-owned land use rights, as well as ownership rights to the buildings. Under PRC law, land use rights and building ownership rights which are duly registered are protected by law.

PRC law prescribes different maximum periods for the grant of a land use right by the PRC government to the land user, subject to the payment of the land grant fee by the land user. The maximum period depends upon the use of the land, and varies from 40 years for commercial, tourism and entertainment uses to 70 years for residential uses. The most common term is 50 years, such as for industrial, warehouse, office and other uses. For further information, see "Regulation."

### *China South City Shenzhen*

We have received land use rights with respect to approximately 2.6 million sq.m. of planned GFA for development for China South City Shenzhen. We have obtained all necessary land title and building ownership certificates to conduct our operations at China South City Shenzhen. The land use rights for Phase One, Phase Two and Phase Three facilities for China South City Shenzhen are for a period of 50 years commencing from 1992-2007 according to the respective land use rights certificates.

### *China South City Nanchang*

We have received land use rights with respect to approximately 4.7 million sq.m. of planned GFA for development for China South City Nanchang. We have obtained all necessary land title and building ownership certificates to conduct our operations at China South City Nanchang. The land use rights for China South City Nanchang are for a periods of 40 years for trade center use, 50 years for warehouse use and 70 years for residential use, commencing from 2010-2015 according to the respective land use rights certificates.

### *China South City Nanning*

We have received land use rights with respect to approximately 2.5 million sq.m. of planned GFA for development for China South City Nanning. The land use rights for China South City Nanning are for a period of 50 years for warehouse use and 70 years of residential use commencing from 2010-2014 according to the respective land use rights certificates.

***China South City Xi'an***

We have received land use rights with respect to approximately 4.2 million sq.m. of planned GFA for our Xi'an project. The land use rights for our Xi'an project are for periods of 40 years for commercial use, commencing from 2011-2014 according to the respective land use rights certificates.

***China South City Harbin***

We have received land use rights with respect to approximately 4.7 million sq.m. of planned GFA for China South City Harbin. The land use rights for China South City Harbin are for periods of 40 years for commercial use and 70 years for residential use commencing from 2012-2015 according to the respective land use rights certificates.

***China South City Zhengzhou***

We have received land use rights with respect to approximately 5.2 million sq.m. of planned GFA for China South City Zhengzhou. The land use rights for China South City Zhengzhou are for periods of 40 years for commercial use and 50 years for warehouse use commencing from 2012-2013 according to the respective land use rights certificates.

***China South City Hefei***

We have received land use rights with respect to approximately 5.2 million sq.m. of planned GFA for China South City Hefei. The land use rights for China South City Hefei are for periods of 40 years for both commercial and trade center use, 70 years for residential use and 50 years for industrial use commencing from 2013-2015 according to the respective land use rights certificates.

***China South City Chongqing***

We have received land use rights with respect to approximately 5.6 million sq.m. of planned GFA for China South City Chongqing. The land use rights for China South City Chongqing are for periods of 40 years for both commercial and trade center use and 50 years for warehouse use commencing from 2014-2016 according to the respective land use rights certificates.

**Sales and Marketing**

We have a team of sales and marketing and customer services personnel located in each project who are responsible for the overall sales, leasing and marketing strategy for each specific project. We also have specialized functional departments responsible for the management of trade centers and ancillary facilities and marketing at the Group level to oversee the sales and marketing of each specified trade center and the other properties for each relevant project. Market research is conducted at the planning stage of each phase of development. Upon commencement of construction of a project, our sales and marketing staff commence marketing activities to target clients and develop advertising and rental plans for the properties held for rental. Upon obtaining the pre-sale certificates of a project, they develop sales plans for the trade center units for sale to purchasers of the properties. We also engage other independent professionals in the PRC to prepare marketing studies to assist us in developing our advertising and sales and rental plans for our projects. This process also includes a determination of target customers, as well as strategies to maximize usage and revenues from the property. Resources and experience gained from different projects will be shared among the projects to achieve better sales and marketing results.

*Advertising Media*

We use various advertising media, including newspapers, airline magazine, television, direct mail, advertising in buses and trains, outdoor billboards and programs of media to market our trade center and residential properties. We also have our own website which provides a platform for promoting our projects.

**Lease Agreements**

We generally offer rent-free periods of different lengths to new occupants of our trade center units. We generally do not offer rent-free periods to existing occupants who renew their leases. Occupants are generally required to pay their monthly rent in advance either on a monthly, quarterly, or yearly basis, or in advance of their lease term. In some cases, we offer to decrease the overall lease payment amount if a tenant prepays the amount due for the remainder of the lease term. Rental rates are subject to review and renegotiation upon renewal of leases.

In addition to making rental payments, occupants of trade center units are also required to provide a security deposit upon entering into a tenancy. We have the right to terminate tenancies upon the occurrence of certain events, such as non-payment of rent, carrying on of business other than the allowed purpose or breach of covenants by the occupants.

**Purchaser and Tenant Financing**

We provide guarantees for mortgage loans to purchasers of trade center and residential units as well as for bank loans extended to occupants of residential units and commercial properties. For further information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Indebtedness and Contingent Liabilities — Guarantees.” The amount of guarantees as of March 31, 2016 was approximately HK$5,805.4 million.

In order to facilitate the finance lease of units in West Garden, we provide entrusted loans through intermediary banks in the PRC to the occupants and guarantees of loans made to the purchasers of trade centers and residential properties and occupants of residential units and commercial properties by PRC banks. These entrusted loans, which generally cover approximately 50% of the value of the property, are settled through monthly payments according to the terms of the entrusted loan agreements. As of March 31, 2016, the amount of finance lease receivables was HK$9.7 million.

**Suppliers and Customers**

Our principal customers are occupants and purchasers of our trade center units. Our five largest customers together accounted for less than 10.0% of our total revenue in the year ended March 31, 2016. Our principal suppliers are contractors.

**Lease Arrangements with Certain Purchasers of Trade Center Units**

For certain of our projects, a purchaser of a trade center unit may enter into a purchase agreement that provides for self-use or one that provides for a leasing arrangement with us. Under the purchase agreements that provide for self-use, the purchasers agree to open their units for business for a certain period of time during the year, and are required to pay a deposit to secure their compliance with this provision. Under the purchase agreements that provide for leasing arrangements, purchasers grant us the right to lease their trade center units to third parties for a permitted period and to receive all rental income from these leases. In return, we agree to offer these purchasers a discount on the purchase price of the trade center units.

**Project Development, Design and Financing Policies and Procedures**

***Project Identification***

The first stage of our development process involves identifying new opportunities or accepting invitations from government officials to review development prospects in their respective cities. We conduct in-depth research and analysis to determine the development potential of a site and seek factors such as: (1) public demand for large trade centers in the area; (2) well-developed transportation infrastructure; (3) promising economic growth potential in the region; and (4) strong government support for the development of the trade center project. Our analysis will typically include an assessment of the economic environment, market investigation, feasibility studies, cost and profit forecasts and a positioning analysis for the site.

***Project Development and Management Procedures***

Once a site is proposed for development, our construction department recommends the appointment of architects and other necessary design consultants, formulates the design brief and controls the design program in consultation with the appointed architects and other consultants. The completed development and construction plan will be submitted to the relevant government authorities for approval.

During the construction phase, a construction team, headed by a project manager, is typically appointed for each development site. These teams, under the direction of our construction department, manage the project development process, seek to ensure the quality and timely completion of each project and control the costs according to the approved budget. Government officials from the relevant construction bureau will generally monitor the quality and safety of the project. We also have our own internal quality surveyors, site engineers and procurement staff to work on the project.

***Project Design***

All detailed project and interior design work for our projects are contracted out to PRC and international architectural and interior design firms, which plan the architectural, landscape and interior designs in accordance with our specifications.

The construction department is also responsible for overseeing the various aspects of design and interior design and for selecting the architects and interior design firms responsible for the project. At times we use a tender process in selecting these architects and interior design firms, while at other times we select architects and interior design firms without using a tender process based on our knowledge of the quality of their services and our previous experience working with them. The construction department and our senior management continually monitor the progress and quality of the appointed design firms to ensure that they are meeting our specifications.

***Construction Work***

We contract with independent third-party construction contractors to perform the construction work for our projects. Our relationship with each contractor lasts until the completion of their contracted stage of work. Certain of our contractors have worked with us through several stages of our construction projects. As of March 31, 2016, we did not engage any related parties for the construction of development projects or for the supply of materials to our development projects. Sometimes, we use a tender process in selecting contractors, material suppliers and consultants, while at other times we select contractors, material suppliers and consultants without using a tender process based on our knowledge of the quality of their services and our previous experiences working with them. Our contracts with construction companies typically contain warranties for quality and requirement for timely completion of the construction process. Although the agreements with our contractors vary due to the scope of contracted work, the majority of our agreements are generally for a six-month to 24-month period, depending on the scope of construction work involved.

Our construction agreements typically provide for payments based on construction progress until a specified maximum percentage of the total contract price is paid. We typically do not make any prepayments, but instead make payments according to the progress on a monthly basis. We assign project teams consisting of our own internal quality surveyors, site engineers and procurement staff to closely monitor the work of the independent construction companies, including quality and construction progress. In the event a contractor fails to perform its contractual obligations or is otherwise deficient in the performance of its contractual obligations, we may require the contractor to remedy the non-compliance or non-conformity of the performance, or otherwise pay damages or a penalty. Since the beginning of our projects, we have not had any material disputes with any of our contractors and suppliers. In addition, neither we nor any of our contractors have terminated a major contractor agreement.

***Monitoring and Supervision***

To monitor the progress of construction, our construction department has a project management team, consisting of qualified engineers led by project managers, that monitors the construction progress of contractors in accordance with our construction agreements and the construction plan progress. To ensure the quality of construction, our project management team monitors the quality of work of construction contractors in accordance with our construction agreements and the construction plan. As required by PRC laws and regulations, we also engage qualified independent quality supervisory companies to conduct quality and safety control checks on building materials and workmanship.

***Financing Policies***

To date, we have financed our projects through loans from bank borrowings, the proceeds from the offering of each of the short-term notes, the medium-term notes, the corporate bonds, the domestic company bonds, the 2011 Notes, the 2012 Notes, the 2014 Notes and the convertible notes, the proceeds of our initial public offering and our working capital. We intend to finance our properties under development and planned for future development with bank and other borrowings, internally generated funds and a portion of the net proceeds of the Notes.

**Quality Control**

We place a strong emphasis on quality control to ensure that our properties comply with relevant laws and regulations and meet market standards. In addition, quality control is crucial to the successful development of our integrated trade center developments and to helping us meet the requirements of our target occupants and customers. We establish and maintain approved registers of design consultants, other consultants, contractors and material suppliers to ensure that only those that are competent are permitted to participate in the tender process. The quality control of our projects is headed by the general manager of the construction department and performed in accordance with our internal procedures and systems as well as the specifications of our projects. We monitor and assess the performance of the design consultants, contractors and material suppliers to ensure that they meet the specified requirements. Appropriate follow-up action and penalties are taken against those that do not meet the required standards. In addition, we also have a project management team consisting of qualified engineers that performs regular quality audits of the project site and reports irregularities or poor workmanship to the general manager of the construction department and to the project managers responsible for the projects. The responsible project construction teams are required to rectify the problem immediately.

**Legal and Compliance**

The daily responsibilities for the implementation of internal control procedures have been placed on the senior management of our business departments and subsidiaries, and our legal, administration and company secretarial departments, who have responsibility to oversee our compliance with applicable laws, rules and regulations. Our legal department is responsible for upholding our compliance function. Our administration department is responsible for obtaining the licenses, authorizations and other certificates required for our business. Our company secretarial department is responsible for overseeing our compliance with the Listing Rules and Companies Ordinance. Our internal audit department reviews and monitors the implementation of internal control procedures by our various departments and subsidiaries and identifies areas of non-compliance and potential risks to us. As we continue to develop our business, we will continue to review our internal control mechanisms and the adequacy of relevant human resources to ensure compliance with statutory requirements and regulations relevant to our business.

**Environmental Matters**

As an operator and developer of trade center projects in the PRC, we are subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. These include regulations on project design and construction, air and noise pollution and discharge of waste and water into the environment.

As required by PRC law, we must, depending on the impact of the project on the environment, submit an environmental impact assessment report, an environmental impact analysis table or environmental impact registration form before the relevant authorities will grant approval for the commencement of construction of the project. See “Risk Factors — Risks Relating to Our Business and Our Industry — Potential liability for environmental problems could result in substantial costs.”

**Health and Safety Matters**

Under PRC laws and regulations, most of the potential liabilities to the workers on and visitors to our construction sites rest with our contractors. To our knowledge, there have been no material incidents of non-compliance with the relevant health and safety laws and regulations by our main contractors or their subcontractors during the course of their business dealings with us.

**Competition**

We face competition from other trade centers in China, particularly in Guangdong Province with regard to China South City Shenzhen. The trade center industry in China is fragmented, and consists of a large number of trade centers of varying sizes. The greatest concentrations of similar trade centers in China are in the Greater Pearl River Delta, the Yangtze River Delta and the Bohai-Ring region near Beijing. Many trade centers in China tend to specialize in one industry sector. There are a limited number of trade centers in China with a GFA in excess of 400,000 sq.m. that offer products in more than one industry sector and have a comprehensive range of supporting services and facilities. Our existing and potential competitors include trade centers managed by private domestic operators, trade centers that may have some affiliation with local government entities in China, and to a lesser extent, trade centers jointly developed or managed with international operators. In addition, there may be an increase in supply of trade centers in the Greater Pearl River Delta and elsewhere in China, such as Nanchang, Nanning, Xi’an, Harbin, Zhengzhou, Hefei and Chongqing in the future. Each of Guangxi Zhuang Autonomous Region, Jiangxi Province, Shaanxi Province, Heilongjiang Province, Henan Province, Anhui Province and Chongqing Municipality also has numerous trade centers varying in size and type of industries represented. A number of our competitors have broader name recognition, a longer track record and more established relationships in certain markets.

In addition, we expect to increase the proportion of residential properties in Nanchang, Nanning, Xi’an, Harbin, Zhengzhou, Hefei and Chongqing. As a result, we will face increasing competition in the future from residential and other property developers. We expect competition among property developers for land reserves that are suitable for property development to remain intense. In addition, PRC governmental land supply policies and implementation measures may further intensify competition for land in China among property developers.

**Intellectual Property Rights**

We have registered the trademark 華南城, “**华南城**” (China South City) and its logo with the Trade Marks Registry in Hong Kong and the PRC Trademark Office under various categories relating to metals, textiles, machines, electronics and many other categories. We also have registration pending in the Trade Marks Registry in Hong Kong with respect to the trademarks of "China South City" and "華南城" under some additional categories. We are also the owner of the domain name of "**www.chinasouthcity.com.**"

**Insurance**

We maintain insurance policies with insurance companies in the PRC, which cover property damage due to natural hazards, including lightening, typhoons and other natural phenomena, and accidents, including fire and explosion, and general liability under property all risk insurance, construction all risk insurance and public liability insurance. There are, however, certain types of risks that are not covered by our insurance policies, including losses resulting from war, nuclear contamination, tsunami, pollution and acts of terrorism. As of March 31, 2016, we had not experienced any significant loss or damage to our properties. In addition, we maintain employer's liability insurance covering bodily injury, medical treatment and litigation expenses for our employees. We also carry automobile insurance covering collision damage and various types of liability for our vehicles. According to PRC laws, under certain circumstances, the owner or manager of properties under construction may bear civil liability for personal injuries arising out of construction work unless the owner or manager can prove that it is not at fault. We take steps to prevent construction accidents and personal injuries, and as a result, we believe that we will generally be able to demonstrate that we were not at fault as the property owner if a personal injury claim is brought against us.

We believe that we have sufficient insurance coverage in place and that the terms of our insurance policies are in line with industry practice in the PRC. Nonetheless, we cannot guarantee that we have sufficient insurance coverage for all damage and liabilities that may arise from our business operations. See "Risk Factors — Risks Relating to our Business — We may suffer losses caused by natural disasters, and these losses may not be fully covered by insurance.

**Employees**

As at March 31, 2016, we had a workforce of approximately 6,930 people, including approximately 6,890 people directly employed by us and approximately 40 people employed by our associate. The number of our staff decreased by 8.8% from approximately 7,600 people as at March 31, 2015. We aim to recruit, retain and develop competent individuals who are committed to our long-term success and growth. Remunerations and other benefits of employees are reviewed annually in response to both market conditions and trends, and are based on qualifications, experience, responsibilities and performance. In addition to basic salaries and other staff benefits, discretionary bonuses and share options may be awarded to employees who display outstanding performance and contributions to the Group.

**Legal Proceedings**

From time to time, we have been involved in legal proceedings or other disputes in the ordinary course of our business which are primarily disputes with our customers, contractors and employees, and we have not incurred significant legal costs and expenses in connection with these legal proceedings. As of the date of this offering memorandum, China South City Nanning has a lease contract dispute in arbitration. The applicant to the arbitration has made a claim in the amount of RMB37,377,665 as well as the interest therein. China South City Nanning has made a counterclaim subsequently in the amount of RMB242,961,801. The arbitration is still pending, but we believe that the counterclaim should not have any material adverse effect on us or any of our relevant subsidiaries. Save as disclosed above, we are not aware of any material legal proceedings, claims or disputes currently existing or pending against us that may have a material adverse impact on our business or our results of operations.

# RELATED PARTY TRANSACTIONS

The following discussion describes certain of our material related party transactions for the fiscal years ended March 31, 2014, 2015 and 2016.

The following table sets forth certain material transactions between us and our related parties for the periods indicated.

| | Fiscal Year Ended March 31, | | |
|---|---|---|---|
| | 2014 | 2015 | 2016 |
| | (HK$ in thousands) | | |
| Rental expense and related service fees for an office property paid to companies of which a director of the Company is a controlling shareholder[(1)] . . . . . . | 1,902 | 2,824 | 2,814 |
| Rental expense for certain units of trade centers paid to certain directors and a close family member of a director[(2)] . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 398 | – | – |
| Construction project design fee income received from a company for which a director of the Company is a controlling shareholder[(3)] . . . . . . . . . . . . . . . . . . . | 1,121 | – | – |
| Rental income for certain offices units received from a company of which a director of the Company is a controlling shareholder[(4)] . . . . . . . . . . . . . . . . . . . | 367 | 888 | 1,071 |

(1) The rental expense and related service fees for an office property were related to the leasing of office property provided to us by related companies (2014: one company; 2015: two companies; 2016: one company). The fees were based on terms mutually agreed between both parties.

(2) The rental expense was related to leasing of trade centers provided to us by related parties. The rental was based on terms mutually agreed between the parties.

(3) The construction project design fee income was related to the our provision of construction project design services to a related party. The design service fee was determined according to the published prices and conditions offered to the major customers of our Group.

(4) The rental income for certain offices units was related to the leasing of certain office units provided to a related party by us. The rental was based on the rental charged to the other occupants of our Group.

The following is a brief description of our material related party transactions.

## Rental Expenses and Related Service Fees for Office Property and Trade Centers

We pay the rental expenses and related service fees for the leasing of office property provided to us by related companies. One of the related companies is Man Sang Jewellery Company Limited, in which Cheng Chung Hing is a controlling shareholder. The rental expenses and related service fees were based on terms mutually agreed between us and the related companies. The rental expenses and related service fees for our office space were HK$1.9 million, HK$2.8 million and HK$2.8 million for the fiscal years ended March 31, 2014, 2015 and 2016, respectively, and the rental expenses for the trade centers were HK$398,000 for the fiscal year ended March 31, 2014. There was no rental expenses for the trade centers in the fiscal years ended March 31, 2015 and 2016, respectively.

## Construction Project Design Fee Income for Provision of Construction Project Design Services

We receive the construction project design fee income for the provision of construction project design services to the related companies. The design service fee was determined according to the published prices and conditions offered to the major customers of our Group. The construction project design fee income for our provision of construction project design services was HK$1.1 million in the fiscal year ended March 31, 2014. There was no construction project design fee income in the fiscal years ended March 31, 2015 and 2016, respectively.

### Rental Income for Certain Offices Units

We receive the rental income for the leasing of certain offices units provided by us to the related companies. The rental was based on the rental charged to the other occupants of our Group. The rental income for the leasing of certain offices units was HK$367,000, HK$888,000 and HK$1,071,000 in the fiscal years ended March 31, 2014, 2015 and 2016, respectively.

### Commitments with Related Parties

On February 23, 2011, we entered into a lease agreement with an expiration date of March 16, 2014 with Man Sang Jewellery Company Limited, a company of which Cheng Chung Hing is a controlling shareholder. On March 13, 2014, we renewed the lease agreement with Man Sang Jewellery Company Limited for a term commencing from March 17, 2014 to March 16, 2017.

### Transfer of Equity Interest in Xi'an China South City Company Limited (''CSC Xi'an'')

On February 10, 2014, China South City Group Limited, an indirect wholly-owned subsidiary of our Company, entered into an equity transfer agreement with Huang Wenjie to acquire 35% equity interest in CSC Xi'an, a subsidiary indirectly owed by us as to 65% at that time, for a consideration of RMB260 million. As at the date of the equity transfer, Huang Wenjie was a substantial shareholder of CSC Xi'an and therefore was a connected person under Chapter 14A of the Listing Rules. This equity transfer was completed on March 26, 2014, after which CSC Xi'an became an indirect wholly-owed subsidiary of our Company.

# DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing projects and to finance our working capital requirements, we have entered into financing arrangements with various financial institutions. As of March 31, 2016, the total outstanding balance of the consolidated interest-bearing bank and other borrowings, senior notes, short-term notes, medium-term notes, corporate bonds and domestic company bonds of the Company and its subsidiaries amounted to HK$33,808.6 million, of which HK$13,654.2 million was secured. We set forth below a summary of the material terms and conditions of these loans and other material indebtedness.

**Project Construction Loan Agreements**

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks, including, but not limited to, Shanghai Pudong Development Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications, China Construction Bank and Agricultural Bank of China. These loans typically are secured project loans to finance the construction of our projects and have terms ranging from three years to ten years, which generally correspond to the construction periods of the particular projects. Our PRC bank loans are typically secured by mortgages over a portion of our land use rights and a portion of our properties and/or guaranteed by China South International, our wholly owned subsidiary. The Notes will be structurally subordinated to these loans and any other indebtedness incurred by our PRC subsidiaries.

***Interest***

The principal amounts outstanding under the project loans generally bear interest at floating rates calculated with reference to the PBOC benchmark interest rate. Floating interest rates are generally subject to review by the lenders annually. Interest payments generally are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement.

***Covenants***

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

- creating encumbrances on their properties or assets;
- altering the nature or scope of their business operations in any material respect;
- making major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions or reorganizations;
- reducing their registered capital;
- making other changes to the company's status, such as by liquidation or dissolution;
- transferring part or all of the liabilities under the loans to a third party;
- prepaying the loans;
- selling or disposing assets;
- transferring a substantial equity interest in the borrower; and
- incurring other indebtedness or granting guarantees to third parties that would adversely affect their ability to repay their loans.

*Dividend Restriction*

Pursuant to the project loans with certain of our lenders, some of our PRC subsidiaries have also agreed not to distribute any dividends:

- before the due portion of the principal amount of and accrued interest on the relevant project loan have been fully paid; or

- if the borrower's after-tax profit is nil or negative, or not sufficient to compensate for accumulated losses of previous years.

*Events of Default*

The loan agreements contain certain customary events of default, such as failure to pay the amount payable on the due date, unauthorized use of loan proceeds, failure to obtain the lender's approval for an act that requires its approval, material breach of the terms of the loan agreement and acceleration of repayment obligations under other loan or financing documents. Upon the occurrence of an event of default, the lenders may terminate the loan agreement and demand immediate repayment.

*Guarantee and Security*

China South International has entered into guarantee agreements with the PRC banks identified above in connection with some of the project loans pursuant to which China South International has guaranteed all liabilities of the subsidiary borrowers under these loans. Our obligations under the loan agreements are typically secured by mortgages over properties and the land use rights relating to the relevant projects.

**Working Capital and Term Loan Agreements**

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks, including, but not limited to, the Agricultural Bank of China, Bank of Communication, Bank of Xi'an, Wing Lung Bank, Bank of Beijing, China Citic Bank, Bank of China, Industrial and Commercial Bank of China, Bank of Nanchang, Huaxia Bank, China Guangfa Bank Co., Ltd., Heng Feng Bank and Industrial Bank Co., Ltd. These loans typically have terms ranging from one year to two years, and are either credit loans or loans secured by mortgages over a portion of our land use rights and a portion of our properties. The Notes will be structurally subordinated to these loans and any other indebtedness incurred by our PRC subsidiaries.

*Interest*

The principal amounts outstanding under these loans generally bear interest at floating rates calculated with reference to the PBOC benchmark interest rate. Floating interest rates are generally subject to monthly, quarterly, or annual review by the lenders. Interest payments are typically payable monthly and must be made on each payment date as provided in the particular loan agreement.

*Covenants*

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

- creating encumbrances on their properties or assets;

- altering the nature or scope of their business operations in any material respect;

- making major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions or reorganizations;
- reducing their registered capital;
- making other changes to the company's status, such as by liquidation or dissolution;
- transferring part or all of the liabilities under the loans to a third party;
- prepaying the loans;
- selling or disposing assets;
- transferring substantial equity interest in the borrower; and
- incurring other indebtedness or granting guarantees to third parties that would adversely affect their ability to repay their loans.

***Dividend Restriction***

Pursuant to the working capital and term loans with certain of our lenders, some of our PRC subsidiaries have also agreed not to distribute any dividends if the borrower's after-tax profit is nil or negative, if the amount of the dividends exceed 30% of the after-tax profit of the borrowers, or if the borrower's after-tax profit is not sufficient to compensate for accumulated losses of previous years.

***Events of Default***

The working capital and term loan agreements contain certain customary events of default, such as failure to pay the amount payable on the due date, unauthorized use of loan proceeds, failure to obtain the lender's approval for an act that requires its approval, material breach of the terms of the loan agreement and acceleration of repayment obligations under other loan or financing documents. Upon the occurrence of an event of default, the lenders may terminate the loan agreement and demand immediate repayment.

***Guarantee and Security***

Some of our working capital and term loans are credit loans. In addition, China South International has entered into guarantee agreements with the PRC banks identified above in connection with some of our working capital and term loans pursuant to which China South International has guaranteed all liabilities of the subsidiary borrowers under these loans. Our obligations under the loan agreements are typically secured by mortgages over a portion of properties and a portion of the land use rights owned by China South International.

**Syndicated Revolving Credit Facility**

China South International has entered into facility agreements in connection with separate revolving loan facilities with the Industrial and Commercial Bank of China Shenzhen. The proceeds of these credit facilities have been used for the purpose of funding our projects and meeting our working capital needs. We have entered and will continue to enter into separate loan agreements when utilizing the credit facilities.

*Interest and Maturity*

Under the facility agreements, the interest rate applicable for each loan will be prescribed in the separate loan agreements. The credit facilities under these facility agreements by their terms expire within 12 months of the date of the agreements.

*Covenants*

Pursuant to these facility agreements, China South International has agreed, among other things, not to take the following actions without obtaining the relevant lender's prior consent:

- creating mortgages or other repayment guarantees on the finished or ongoing construction projects at the China South International Industrial Materials City and relevant cash-flow;
- obtaining financing from other banks for its new projects;
- making major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions or reorganizations;
- reducing its registered capital;
- transferring or disposing, or threatening to transfer or dispose, important parts of its assets; and
- granting guarantees to third parties or mortgaging or pledging its major assets where doing so would adversely affect its ability to repay its loan(s) under the facility agreement.

*Events of Default*

The facility agreements contain certain customary events of default, including providing fraudulent statements of financial position, income statements or other financial information, providing statements of financial position, income statements or other financial information with material information missing, unauthorized use of loan proceeds, and failure to obtain the lender's approval for an act that requires its approval. The lenders are entitled to demand repayment of part or all of the loans and/or cancel the unutilized facility upon occurrence of an event of default.

**Short-Term Notes**

On October 17, 2014, China South International completed the issuance of the first tranche of the PRC short-term notes of 2014 in the national interbank market in the PRC ("2014 First Tranche STN") with a total principal amount of RMB2.2 billion with a maturity period of 1 year and at an interest rate of 5.4% per annum. The proceeds were to be used for repaying part of the bank loans of our Group. The 2014 First Tranche STN have been repaid in October 2015.

On September 9, 2015, China South International completed the issuance of the first tranche of short-term notes of 2015 ("2015 First Tranche STN") with a total principal amount of RMB2.1 billion with a maturity period of 1 year and at an interest rate of 4.3% per annum, payable on September 9 in arrears, and will mature on September 9, 2016. The proceeds were to be used for replacement of bank borrowings of our Group.

**Medium Term Notes**

In April 2014, China South International obtained the relevant approval for issuing medium-term notes in the national inter-bank market in the PRC with a maximum principal amount of RMB4 billion.

On May 9, 2014, China South International completed the issuance of the first tranche of medium-term notes of 2014 (the "2014 First tranche MTN") with a total principal amount of RMB1 billion in the national inter-bank market of the PRC. The 2014 First tranche MTN carry interest at the rate of 7.5% per annum and with a maturity period of 5 years, payable annually on May 9 in arrears, and will mature on May 9, 2019. The proceeds were to be used for repaying part of the short-term bank loans of our Group.

On September 12, 2014, China South International completed the issuance of the second tranche of medium-term notes of 2014 (the "2014 Second tranche MTN") with a total principal amount of RMB1 billion in the national interbank market of the PRC. The 2014 Second tranche MTN carry interest at the rate of 8.4% per annum and with a maturity period of 5 years, payable annually on September 12 in arrears, and will mature on September 12, 2019. The proceeds were to be used for repaying part of bank loans of our Group.

On July 13, 2015, China South International completed the issuance of the first tranche of medium-term notes of 2015 (the "2015 First tranche MTN") with a total principal amount of RMB2 billion in the national inter-bank market of the PRC. The 2015 First tranche MTN carry interest at the rate of 7.0% per annum and with a maturity period of 3 years, payable annually on July 13 in arrears, and will mature on July 13, 2018. The proceeds were to be used for replacement of bank loans of our Group and the development of China South City Nanning project.

**Corporate Bonds**

On April 13, 2015, China South International completed the issuance of the corporate bonds with a total principal amount of RMB1.5 billion and with a term of up to 6 years in maximum on the Shanghai Stock Exchange of the PRC. The corporate bonds carry interest at the rate of 7.0% per annum, payable annually on April 13 in arrears, and will mature on April 13, 2021. The proceeds were to be used for funding the development of China South City Zhengzhou project.

**Domestic Company Bonds**

In December 2015, China South International obtained the relevant approval for issuing the domestic company bonds in a maximum principal amount of RMB4.4 billion in the PRC.

On January 14, 2016, China South International issued the first tranche of domestic company bonds of 2016 ("2016 First Tranche DCB") with the total principal amount of RMB3 billion with a term of 3 years and at an interest rate of 5.98% per annum. The proceeds were to be used for repaying part of bank loans of the Group and for general corporate purposes.

On May 4, 2016, China South International issued the second tranche of domestic company bonds of 2016 ("2016 Second Tranche DCB") with the total principal amount of RMB1.4 billion with a term of 3 years and at an interest rate of 6.85% per annum. The proceeds were to be used for repaying part of bank loans of the Group and general working capital.

**2012 Notes**

On October 17, 2012, we entered into an indenture (as supplemented by a supplemental indenture dated February 27, 2013 and as amended and supplemented from time to time, the "2012 Notes Indenture") pursuant to which we issued US$125 million (equivalent to HK$975 million) principal amount of 13.5% Senior Notes due 2017.

On April 15, 2016, we redeemed the full outstanding principal amount of the 2012 Notes in the aggregate amount of US$125 million at a redemption price equal to 106.750% of the principal amount thereon, plus accrued and unpaid interest.

**2014 Notes**

On January 29, 2014, we entered into an indenture (as supplemented by a supplemental indenture dated as of April 1, 2016 and as amended and supplemented from time to time, the "2014 Notes Indenture") pursuant to which we issued US$400 million principal amount of 8.25% Senior Notes due 2019.

***Guarantee***

The obligations pursuant to the 2014 Notes are guaranteed by our existing subsidiaries (the "2014 Subsidiary Guarantors") other than those organized under the laws of the PRC. Under certain circumstances and subject to certain conditions, a guarantee by a 2014 Subsidiary Guarantor may be replaced by a limited-recourse guarantee, referred to as a JV Subsidiary Guarantee in the 2014 Notes Indenture. Each of the 2014 Subsidiary Guarantors and the JV Subsidiary Guarantors (if any), jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under, the 2014 Notes, provided that any JV Subsidiary Guarantee will be limited to a JV entitlement amount.

***Collateral***

In order to secure the obligations under the 2014 Notes, the Company and the subsidiary guarantor pledgors under the 2014 Notes Indenture pledged the capital stock of all such 2014 Subsidiary Guarantors for the benefit of the holders of the 2014 Notes (the "2014 Collateral"). Subject to the provisions of the Intercreditor Agreement (as defined below), the 2014 Collateral 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 2014 Notes Indenture may, subject to certain conditions, incur additional indebtedness provided that such indebtedness would be on a pari passu basis with the 2014 Notes and the related subsidiary guarantees, and other pari passu secured indebtedness permitted under the 2014 Notes Indenture.

***Interest***

The 2014 Notes bear an interest rate of 8.25% per annum. Interest is payable semi-annually in arrear.

***Covenants***

Subject to certain conditions and exceptions, the 2014 Notes Indenture contains certain covenants, which restrict our ability and the ability of each of the related restricted subsidiaries to, among other things:

- incur or guarantee additional indebtedness or issue disqualified or preferred stock;
- declare dividends on its 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.

***Events of Default***

The 2014 Notes Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the 2014 Notes, when such payments become due, default in payment of interest which continues for 30 consecutive days, breaches of covenants, insolvency and other events of default specified in the 2014 Notes Indenture. If an event of default occurs and is continuing, the 2014 Notes Trustee or the holders of at least 25% of the outstanding 2014 Notes may declare the principal of the 2014 Notes plus any accrued and unpaid interest and premium (if any) to be immediately due and payable. However, if an event of default occurs because of insolvency, the principal of, premium if any, and accrued and unpaid interest on the 2014 Notes then outstanding shall automatically be due and payable without any declaration or other act on the part of the 2014 Notes Trustee or a holder of the 2014 Notes.

***Change of Control***

Upon the occurrence of a certain event of change of control and a rating decline, we are obligated to make an offer to repurchase all outstanding 2014 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 2014 Notes is January 29, 2019. At any time on or after January 29, 2017, we may redeem the 2014 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 (but not including) the redemption date:

| Period | Redemption Price |
|---|---|
| 2017 | 104.1250% |
| 2018 and thereafter | 102.0625% |

At any time prior to January 29, 2017, we may redeem the 2014 Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2014 Notes, plus a premium and any accrued and unpaid interest to the redemption date.

At any time prior to January 29, 2017, we may redeem up to 35% of the aggregate principal amount of the 2014 Notes at a redemption price equal to 108.25% of the principal amount of the 2014 Notes, plus any accrued and unpaid interest with the proceeds form sales of certain kinds of the Company's capital stock, subject to certain conditions.

Additionally, if we or a subsidiary guarantor under the 2014 Notes Indenture would become obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the 2014 Notes at a redemption price equal to 100% of the principal amount of the 2014 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

### *Intercreditor Agreement*

In connection with the offering of the 2012 Notes, the Company entered into an intercreditor agreement on October 17, 2012 (as amended by an amendment dated on or about April 9, 2013, as supplemented by the first supplement dated on or about April 9, 2013 and as supplemented by the second supplement dated on January 29, 2014, and as amended and supplemented from time to time, the "Intercreditor Agreement"), pursuant to which they agreed, among others, to share the collateral securing the 2012 Notes and 2014 Notes on an equal and ratable basis. On April 15, 2016, we redeemed the full outstanding principal amount of the 2012 Notes.

## Customer Guarantees

In line with industry practice, we provide guarantees to mortgagee banks in respect of mortgage loans taken out by purchasers of our properties. Such guarantee obligations typically terminate upon the delivery of the relevant property ownership certificates on the underlying property to the bank and the completion of the relevant mortgage registration process. As of March 31, 2016, the aggregate outstanding amount guaranteed was approximately HK$5,805.4 million.