THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or the Whitewash Waiver or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **SRE Group Limited**, you should at once hand this circular and the accompanying proxy form to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

SRE GROUP LTD.

SRE GROUP LIMITED
上置集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1207)

(1) PROPOSED ISSUE OF NEW SHARES TO THE SUBSCRIBERS UNDER SPECIFIC MANDATE; (2) APPLICATION FOR WHITEWASH WAIVER; (3) OTHER ARRANGEMENT; (4) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL; AND (5) PROPOSED REMOVAL, APPOINTMENT AND RE-ELECTION OF DIRECTORS

Financial Adviser to China Minsheng Jiaye

HSBC

Financial Adviser to SRE Group Limited

Chanceton Capital Partners Limited

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

AMASSE CAPITAL
寶積資本

A letter from the Board is set out on pages 8 to 32 of this circular.

A letter from the IBC is set out on pages 33 to 34 of this circular.

A letter from the IFA, containing its advice to the IBC and the Independent Shareholders, is set out on pages 35 to 60 of this circular.

A notice convening the SGM to be held at Taichi Room, Unit 3810, 38/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on Wednesday, 2 December 2015, at 3:00 p.m. is set out on pages SGM-1 to SGM-3 of this circular. A proxy form for use at the SGM is also enclosed. Whether or not you are able to attend the SGM, please complete the enclosed proxy form in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable, but in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish and, in such event, the instrument appointing a proxy will be deemed to be revoked.

* *For identification purpose only*

16 November 2015

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"acting in concert"	has the meaning given to it in the Takeovers Code
"Announcement"	the announcement of the Company dated 12 October 2015, in connection with, among others, the Subscription, the Specific Mandate and the Whitewash Waiver
"associates"	has the meaning given to it in the Listing Rules
"Board"	the board of Directors
"Business Day"	a day on which banks are generally open for business in Hong Kong (other than a Saturday, Sunday or a public holiday or a day on which a tropical cyclone warning no. 8 or above or a "black" rainstorm warning signal is hoisted or remains hoisted in Hong Kong at any time between 9:00 am to 5:00 pm)
"Bye-laws"	the memorandum of association and bye-laws of the Company which are currently in force
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Chanceton"	Chanceton Capital Partners Limited, a licensed corporation to carry out type 6 (advising in corporate finance) regulated activities under the SFO, the financial adviser to the Company
"China Minsheng Investment"	China Minsheng Investment Corp., Ltd. (中國民生投資股份有限公司), a joint stock limited company established in the PRC and the parent company of China Minsheng Jiaye
"China Minsheng Jiaye"	China Minsheng Jiaye Investment Co., Ltd. (中民嘉業投資有限公司), a limited liability company established in the PRC
"close associates"	has the meaning given to it in the Listing Rules
"close relatives"	has the meaning given to it in the Takeovers Code

"Company"	SRE Group Limited, a company incorporated in Bermuda with limited liability, whose Shares are listed on the Main Board of the Stock Exchange (Stock Code: 1207)
"connected person"	has the meaning given to it in the Listing Rules
"controlling shareholder"	has the meaning given to it in the Listing Rules
"core connected person"	has the meaning given to it in the Listing Rules
"Directors"	directors of the Company, including the independent non-executive directors of the Company
"Event of Default"	failure on the part of any party to the Subscription Agreement to endeavour to procure the completion of the due diligence process and to make its best efforts to complete the Subscription
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Group"	the Company and its subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HSBC"	The Hongkong and Shanghai Banking Corporation Limited, an institution registered under the SFO to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), the financial adviser to China Minsheng Jiaye in relation to the Subscription

"IBC"	the independent committee of the Board comprising all the non-executive Directors and the independent non-executive Directors, who have no direct or indirect interest in the Subscription and the Whitewash Waiver, established for the purpose of considering and advising: (i) the TC Independent Shareholders as to whether the terms of the Subscription and the Whitewash Waiver are fair and reasonable and as to voting; and (ii) the LR Independent Shareholders as to whether the terms of the Subscription and the Specific Mandate are fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole and the voting action that should be taken by Independent Shareholders
"IFA" or "Amasse"	Amasse Capital Limited, a licensed corporation to carry out type 6 (advising in corporate finance) regulated activities under the SFO, the independent financial adviser appointed by the IBC to advise it in connection as to whether the terms of the Subscription and the Whitewash Waiver are fair and reasonable and the voting action that should be taken by Independent Shareholders
"Independent Shareholders"	the TC Independent Shareholders and the LR Independent Shareholders, as the case may be
"Investor A"	Huaye International Holdings Co., Limited, a company incorporated in Hong Kong and wholly-owned by Ms. Mu Yan
"Investor B"	Best Forecast Investments Limited, a company incorporated in the British Virgin Islands and wholly-owned by Ms. Dong Xiao Li
"Investor C"	China Best International (HK) Limited, a company incorporated in Hong Kong and wholly-owned by Mr. Tsar Chun Yeung
"Investor D"	Premium Glory Investments Limited, a company incorporated in the British Virgin Islands and wholly-owned by Mr. Liu Kun
"Investor E"	Oasis Union Trading Development Limited, a company incorporated in the British Virgin Islands and wholly-owned by Mr. Xia Wu Jie

"Investors"	collectively, Investor A, Investor B, Investor C, Investor D and Investor E
"Last Trading Day"	21 September 2015, being the last Trading Day of the Shares before the suspension of trading in the Shares pending the release of an announcement relating to an inside information of the Company
"Latest Practicable Date"	13 November 2015, being the latest practicable date for ascertaining certain information contained in this circular
"Liquidated Damages"	liquidated damages in the amount of RMB200 million and the immediate repayment of all obligations under the Loan in the Event of Default on the part of the Company and/or SREI
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Loan"	a 3 month fixed loan in the amount of RMB560 million at an interest rate of 12% per annum provided by China Minsheng Jiaye to the Group pursuant to the Loan Agreement
"Loan Agreement"	the loan agreement dated 16 September 2015 in respect of the Loan entered into by, among others, the Company, certain of its subsidiaries and China Minsheng Jiaye
"Long Stop Date"	31 March 2016, or such other date as may be agreed between the Company and the Subscribers in writing
"LR Independent Shareholders"	Shareholders other than those who have a material interest (within the meaning of the Listing Rules) in the relevant Transactions
"Major Disposal"	disposal of 60% equity interest in Mayson Resources Limited and 60% of shareholder's loan as disclosed in the announcement of the Company dated 30 October 2015
"MOU Announcement"	the announcement of the Company dated 15 September 2015, in connection with the memorandum of understanding in relation to a possible subscription of shares in the Company and possible application for whitewash waiver

"NAV"	the net asset value of the Group attributable to Shareholders
"PRC"	the People's Republic of China, which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Public Float Requirement"	the requirement under the Listing Rules applicable to the Company that not less than a specified percentage of the Shares which are listed on the Stock Exchange must be held by the public for the purpose of the Listing Rules
"Relevant Period"	the period from 15 March 2015 (being the date falling 6 months prior to 15 September 2015, i.e. the date of the MOU Announcement) up to and including the Latest Practicable Date
"RMB"	Renminbi, the lawful currency of the PRC
"Security"	the corporate guarantee entered into by the Company and the share charges entered into by certain subsidiaries of the Company, in each case dated 16 September 2015 in favour of China Minsheng Jiaye, to secure the obligations of the borrower under the Loan Agreement
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened at Taichi Room, Unit 3810, 38/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on Wednesday, 2 December 2015 at 3:00 p.m. to approve, among other things (i) the Share Capital Increase; (ii) the Subscription Agreement; (iii) the granting of the Specific Mandate; (iv) the Whitewash Waiver and (v) the removal, appointment and re-election of Directors
"Share Capital Increase"	the proposed increase in the authorised share capital of the Company from HK$800,000,000 divided into 8,000,000,000 Shares to HK$5,000,000,000 divided into 50,000,000,000 Shares

"Shares"	ordinary shares of HK$0.10 each in the capital of the Company
"Shareholders"	holders of Shares
"Specific Mandate"	the authority to be sought from the LR Independent Shareholders to authorise the Directors to issue the Subscription Shares
"SREI"	SRE Investment Holding Limited, the controlling shareholder of the Company currently holding approximately 51.01% of the issued share capital of the Company
"SREI Concert Parties"	parties acting in concert or presumed to be acting in concert with SREI, including (a) Mr. Shi Jian (a director and a 36% shareholder of SREI), (b) Madam Si Xiao Dong (the spouse of Mr. Shi Jian, a director and a 30% shareholder of SREI), (c) Mr. Li Yao Min (a director and a 5% shareholder of SREI), (d) Mr. Shi Jian Dong (close relative of Mr. Shi Jian, a director and a 5% shareholder of SREI), and (e) close relatives of Mr. Shi Jian and/or Madam Si Xiao Dong (holding in aggregate 6% interest in SREI)
"SREI Directors"	directors of SREI, namely Mr. Shi Jian, Madam Si Xiao Dong, Mr. Li Yao Min and Mr. Shi Jian Dong
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscribers"	collectively, China Minsheng Jiaye and the Investors
"Subscription"	the subscription of the Subscription Shares by the Subscribers pursuant to the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 9 October 2015 entered into between the Company, the Subscribers and SREI in relation to the Subscription
"Subscription Completion"	completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement
"Subscription Completion Date"	the date on which the Subscription Completion occurs
"Subscription Conditions"	the conditions precedent to the Subscription Completion under the Subscription Agreement as set out in the "Letter from the Board" contained in this circular

"Subscription Price"	HK$0.10 per Subscription Share
"Subscription Shares"	14,900,000,000 Shares to be issued by the Company to the Subscribers pursuant to the Subscription
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"TC Independent Shareholders"	Shareholders other than (i) China Minsheng Jiaye, China Minsheng Investment and parties acting in concert with them; (ii) SREI and its concert parties; and (iii) those who are involved in or interested in the Subscription and/or the Whitewash Waiver (as the case may be)
"Third Party Indebtedness"	certain indebtedness of certain connected persons of Mr. Shi Jian that is guaranteed or secured by the Company and/or certain of its subsidiaries or its assets as disclosed in the announcement of the Company on 24 September 2015 and 3 November 2015
"Trading Days"	the days on which the Shares are traded on the Stock Exchange
"Transactions"	the Subscription, the Whitewash Waiver, the Specific Mandate and the Share Capital Increase (and the transactions so contemplated)
"Whitewash Waiver"	the whitewash waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of any obligation of China Minsheng Jiaye to make a mandatory general offer (for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by China Minsheng Jiaye and any parties acting in concert with it) as a result of China Minsheng Jiaye subscribing for the Subscription Shares under the Subscription Agreement
"%"	percent

Unless otherwise specified in this circular, amounts denominated in RMB and US$ have been converted, for illustrative purpose only, into HK$ at an exchange rate of RMB1.00 = HK$1.22 or US$1.00 = HK$7.80. Such exchange rates are for the purpose of illustration only and do not constitute a representation that any amount has been, could have been or may be converted at any of the above rate and any other rate or at all.

SRE GROUP LIMITED
上置集團有限公司*

SRE GROUP LTD.

(Incorporated in Bermuda with limited liability)
(Stock Code: 1207)

Board of Directors:
Shi Jian *(Chairman)*
Wang Zi Xiong
(Co-chairman & Chief Executive Officer)
Shi Janson Bing *(Vice-chairman)*
Ma Dayu
Li Genfa
Shi Lizhou
Cheung Wing Yui*
Jin Bing Rong*
Zhuo Fumin**
Chan, Charles Sheung Wai**
Yang Chao**
Guoping**

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
Suite 4006, 40/F
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

* *Non-executive Directors*

** *Independent Non-executive Directors*

16 November 2015

To the Shareholders,

Dear Sir or Madam,

**(1) PROPOSED ISSUE OF NEW SHARES TO THE SUBSCRIBERS UNDER SPECIFIC MANDATE;
(2) APPLICATION FOR WHITEWASH WAIVER;
(3) OTHER ARRANGEMENT;
(4) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL; AND
(5) PROPOSED REMOVAL, APPOINTMENT AND RE-ELECTION OF DIRECTORS**

1 INTRODUCTION

Reference is made to the Announcement. On 9 October 2015, the Company, the Subscribers (including China Minsheng Jiaye and the Investors) and SREI entered into the Subscription Agreement, pursuant to which the Company conditionally agreed to issue, and

* *For identification purpose only*

the Subscribers conditionally agreed to subscribe for, an aggregate of 14,900,000,000 Subscription Shares at the Subscription Price of HK$0.10 per Subscription Share for a total cash consideration of HK$1,490,000,000.

The purpose of this Circular is to provide the Shareholders with, among other things: (a) further information about the Subscription, the Specific Mandate, the Share Capital Increase, the Whitewash Waiver and the proposed removal, appointment and re-election of Directors; (b) the letter of recommendation from the IBC; (c) the letter of advice from the IFA in respect of the Subscription and the Whitewash Waiver; (d) the notice of the SGM; and (e) other information required by the Listing Rules and the Takeovers Code.

2 THE SUBSCRIPTION AGREEMENT

Date

9 October 2015 (after trading hours)

Parties

(1) The Company (as issuer)

(2) The Subscribers, namely, China Minsheng Jiaye, Investor A, Investor B, Investor C, Investor D and Investor E; and

(3) SREI.

Further details about the Subscribers are set out in the sub-section headed “Other Information” in this section.

To the best of the knowledge, information and belief of the Directors, each of the Subscribers and their ultimate beneficial owners is a third party independent of the Company and its connected persons (as defined in the Listing Rules).

SREI is the controlling shareholder of the Company currently holding 2,889,659,128 Shares, representing approximately 51.01% of the issued share capital of the Company. The principal activity of SREI is investment holding. Under the Subscription Agreement, SREI, as the controlling shareholder of the Company, has given certain representations and warranties to the Subscribers in respect of, among other things, the underlying business and operations of the Group. Please refer to the sub-section headed “Representations and Warranties” below for more details.

As at the Latest Practicable Date, based on the information available to the Company:

(a) The legal and beneficial shareholders of SREI are Mr. Shi Jian (a director of the Company and SREI, holding 36% interest in SREI), Madam Si Xiao Dong (the spouse of Mr. Shi Jian and a director of SREI, holding 30% interest in SREI), Mr. Li Yao Min (a director of SREI, holding 5% interest in SREI), Mr. Shi Jian Dong (close relative of Mr. Shi Jian and a director of SREI, holding 5% interest in SREI), close relatives (as defined in the Takeovers Code) of Mr. Shi Jian and/or Madam Si Xiao Dong (holding in aggregate 6% interest in SREI), other relatives (but not being "close relatives" as defined in the Takeovers Code) of Mr. Shi Jian and/or Madam Si Xiao Dong (holding in aggregate 2% interest in SREI) and some other individuals (holding in aggregate 16% interest in SREI).

(b) SREI has four directors. The SREI Directors, namely Mr. Shi Jian, Madam Si Xiao Dong, Mr. Shi Jian Dong and Mr. Li Yao Min, and their "close relatives" (as defined in the Takeovers Code) are presumed to be acting in concert with SREI under Class 2 presumption in the definition of "acting in concert" in the Takeovers Code.

(c) Apart from their indirect shareholding interest in the Company through SREI, the SREI Concert Parties hold direct interest in 20,699,274 Shares, representing 0.37% of the issued share capital of the Company. Other shareholders of SREI (not being parties presumed to be acting in concert with SREI) directly owns 6,636,091 Shares, representing 0.12% of the issued share capital of the Company.

The Subscription

Before engaging in negotiation with the Company in respect of the Subscription, China Minsheng Jiaye had been looking for good investment opportunities in the real estate sector of Hong Kong capital markets. On 14 August 2015, the Company issued an announcement in relation to the termination of the memorandum of understanding between the Company, Poly Real Estate Group Co., Ltd. and SREI for a possible subscription of Shares. Considering the Company an investment target with high potential, China Minsheng Jiaye contacted the Company and expressed an interest in investment in the Company by way of share subscription. After the publication of the MOU Announcement on 15 September 2015, the Investors approached China Minsheng Jiaye and expressed their interest in participating in the Subscription. China Minsheng Jiaye then forwarded the Investors' contacts to the Company accordingly.

On 9 October 2015, the Company, the Subscribers (including China Minsheng Jiaye and the Investors) and SREI entered into the Subscription Agreement, pursuant to which the Company conditionally agreed to issue, and the Subscribers conditionally agreed to subscribe for, an aggregate of 14,900,000,000 Subscription Shares at the Subscription Price of HK$0.10 per Subscription Share for a total cash consideration of HK$1,490,000,000.

The amount of subscription monies, the number of Subscription Shares and the percentage shareholding (on the basis of the issued share capital of the Company as enlarged by the Subscription Shares) of each of the Subscribers are set out below:

Subscriber	Subscription monies	Subscription Shares	%
China Minsheng Jiaye	HK$1,250,000,000.00	12,500,000,000	60.78%
Investor A	HK$70,000,000.00	700,000,000	3.40%
Investor B	HK$50,000,000.00	500,000,000	2.43%
Investor C	HK$50,000,000.00	500,000,000	2.43%
Investor D	HK$50,000,000.00	500,000,000	2.43%
Investor E	HK$20,000,000.00	200,000,000	0.98%
Total:	HK$1,490,000,000.00	14,900,000,000	72.45%

Pursuant to the terms of the Subscription Agreement, China Minsheng Jiaye has the right to nominate any affiliate such as its wholly-owned subsidiary to take up all of its Subscription Shares on the Subscription Completion Date.

The size of the Subscription and the distribution of the Subscription Shares among the Subscribers was a result of arm's length negotiations between the Company and the Subscribers with reference to a number of considerations, including: (1) capital needs of the Company; (2) the public float requirement under the Listing Rules; (3) investment objectives of each of the Subscribers; and (4) China Minsheng Jiaye becoming the single largest shareholder of the Company holding more than 50% of the enlarged issued share capital upon the Subscription Completion, an intention which has been stated in the memorandum of understanding entered into between the Company, China Minsheng Jiaye and SREI on 12 September 2015.

There is no understanding, agreements or arrangements between China Minsheng Jiaye and the Investors in relation to the voting rights of the Company (including their acquisition or disposal of the voting rights of the Company). China Minsheng Jiaye on one hand and each of the Investors on the other hand do not fall within any of the 9 classes of presumptions of acting in concert under the Takeovers Code.

The 14,900,000,000 Subscription Shares represent: (i) approximately 263.03% of the existing issued share capital of the Company; and (ii) approximately 72.45% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

Subscription Price

The Subscription Price for the Subscription of HK$0.10 per Subscription Share represents:

(a) a discount of approximately 72.60% to the closing price of HK$0.365 per Share on the Latest Practicable Date;

(b) a discount of approximately 74.36% to the closing price of HK$0.390 per Share on the Last Trading Day;

(c) a discount of approximately 73.33% to the average closing price of HK$0.375 per Share for the last 5 Trading Days immediately prior to and including the Last Trading Day;

(d) a discount of approximately 73.54% to the average closing price of HK$0.378 per Share for the last 10 Trading Days immediately prior to and including the Last Trading Day;

(e) a discount of approximately 93.73% to the NAV of approximately HK$1.595 per Share as at 31 December 2014, based on the Annual Report of the Company for the year ended 31 December 2014; and

(f) a discount of approximately 93.55% to the NAV of approximately HK$1.550 per Share as at 30 June 2015, based on the Interim Report of the Company for the six months ended 30 June 2015.

Basis for Determining the Subscription Price

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscribers with reference to, and was agreed at below the then prevailing and historical trading prices of the Shares and at a significant deep discount of the NAV per Share after taking into account, certain factors including:

(i) the weak business performance of the Group, in particular the continuing losses attributable to owners of the parent for the six months ended 30 June 2015 and the year ended 31 December 2014, and the potential strategic benefits to be brought by China Minsheng Jiaye's Subscription for a controlling interest in the Company given China Minsheng Jiaye's strong business background, industry expertise and financing capability;

(ii) the significant indebtedness and funding requirements of the Group as at 30 June 2015 and the Loan in the amount of RMB560 million provided by China Minsheng Jiaye to the Group to satisfy the Group's short term indebtedness repayment obligations; and

(iii) the contingent liabilities of the Group in respect of the Third Party Indebtedness and the back-to-back indemnity to be provided by China Minsheng Jiaye which is intended to remedy the undesirable financial implications of the Group's exposure to such contingent liabilities.

Despite the size of its NAV, the Group has an urgent need of new capital to meet its short term cash flow requirements and it may not be able to liquidate its assets readily or successfully. The Company expects that the Subscription by China Minsheng Jiaye as a strategic investor will bring about significant benefits to the Group.

For a more detailed discussion of the above factors, please refer to the sub-sections headed "Other Information – Intention in relation to the Group", "Other Information – Reasons for and Benefits of the Subscription" and "Other Arrangement" below.

The gross proceeds from the Subscription would amount to HK$1,490 million. The net proceeds of the Subscription, after deducting professional fees and other related expenses, are estimated to be approximately HK$1,486 million, representing a net price of approximately HK$0.0997 per Subscription Share.

Subscription Conditions

The Subscription Completion is conditional upon, inter alia, the following Subscription Conditions having been satisfied (or, if applicable, waived):

(a) the Share Capital Increase being approved by the Shareholders, the Subscription, the Specific Mandate and the appointment of directors nominated by China Minsheng Jiaye being approved by the LR Independent Shareholders, and the Subscription and the Whitewash Waiver being approved by the TC Independent Shareholders, in each case by way of poll at the SGM;

(b) the Executive having granted to China Minsheng Jiaye (and parties acting in concert with it) the Whitewash Waiver, and any conditions attaching to the Whitewash Waiver having been satisfied;

(c) the Company having obtained the approval from the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares, and such approval not having been revoked or cancelled prior to Subscription Completion;

(d) China Minsheng Jiaye having completed its due diligence on the Company and being satisfied with its results;

(e) the representations and warranties of the Company and SREI set out in the Subscription Agreement remaining true, accurate, complete and not misleading on Subscription Completion, and the Company and SREI having complied with all of their undertakings (including those in relation to pre-completion undertakings and covenants) under the Subscription Agreement;

(f) from the date of the Subscription Agreement until the Subscription Completion Date, the Shares continuing to be listed and traded on the Stock Exchange (except for suspension of trading in connection with the Subscription Agreement or suspension of trading for not more than five trading days) and no requests having been received from the SFC and/or the

Stock Exchange that the listing status of the Shares on the Stock Exchange will be revoked or cancelled as a result of the completion under the Subscription Agreement or any terms thereunder or other matters;

(g) from the date of the Subscription Agreement until the Subscription Completion Date, no person (except a party to the Subscription Agreement) having obtained a binding order from any relevant authorities restricting or prohibiting any party to the Subscription Agreement to complete the transactions contemplated thereunder at any relevant authorities and the Subscription Agreement and the transactions contemplated thereunder comply with applicable laws and regulations;

(h) all relevant government authorities or regulatory authorities or other relevant third parties (including banks and other creditors) having granted to the Company or the Subscribers all necessary consents, approvals, reports and filings (if applicable) in respect of the entry into and performance of the Subscription Agreement;

(i) since the date of the Subscription Agreement, (i) there having been no events, conditions, occurrence or development of a state of circumstances or facts which has had or reasonably could be expected to have a material and adverse change or effect on the business, operations, assets or liabilities, financial conditions or prospects of the Group or any of its subsidiaries (as applicable) and; (ii) there having been no change in the applicable laws in each of the jurisdictions in which the Group has business operations which may lead to material and adverse effect to the Group as a whole;

(j) the Subscribers having received a legal opinion issued by Bermuda counsel on matters of Bermuda law in a form reasonably satisfactory to the Subscribers; and

(k) the Company and its subsidiaries not having defaulted any of its contractual obligations under any agreements, tenancies, mortgages, charges, trust deeds, notes or bonds.

Waiver of the Subscription Conditions

The Subscribers may at any time waive any or all of the Subscription Conditions set out in paragraphs (d) through (k) of the sub-section headed “Subscription Conditions” above. The remaining Subscription Conditions cannot be waived.

Long Stop Date

If the Subscription Conditions have not been satisfied or waived by the parties on or before the Long Stop Date, the Subscription Agreement will be terminated, but without prejudice to any rights accrued by the parties prior to termination.

Events of Default

Each party to the Subscription Agreement has undertaken to make its best efforts to complete the Subscription. Subject to the absence of any material risks in the due diligence review by China Minsheng Jiaye and to its satisfaction with the due diligence results, any failure to perform the foregoing undertaken obligation on the part of any party to the Subscription Agreement will constitute an Event of Default and will result in liability for liquidated damages in the amount of RMB200 million.

Pursuant to the terms of the Subscription Agreement, the liability for the RMB200 million liquidated damages is bilateral. It means that if either the Company or China Minsheng Jiaye fails to perform its undertaken obligation to make its best efforts to complete the Subscription, it shall pay RMB200 million to the non-defaulting party. The amount of such liquidated damages was determined after arm's length negotiations between the parties, taking into consideration various factors, including: (1) cost of capital in respect of the subscription monies; (2) the size of the Subscription and the Loan; (3) the risk of default with respect to the Subscription; (4) the risk of default with respect to the Loan; and (5) the determination of the parties to complete the Subscription.

As announced by the Company on 15 September 2015, in view of the capital needs of the Group in the near term, China Minsheng Jiaye intended to provide an interest-bearing short-term loan to the Group. On 16 September 2015, the Company and certain of its subsidiaries entered into the Loan Agreement with China Minsheng Jiaye, whereby (a) the Loan, being a 3 month fixed loan in the amount of RMB560 million at an interest rate of 12% per annum, was provided by China Minsheng Jiaye to the Group; (b) the obligations of the borrower were secured by the corporate guarantee of the Company and the personal guarantee of Mr. Shi Janson Bing (an executive Director); and (c) share charges were entered into by certain subsidiaries of the Company by way of collaterals in support of the Loan. The interest rate of the Loan was determined after arm's length negotiation between the parties, taking into consideration various factors, including: (1) the other trust loans of the Group in the PRC with annual total cost (including interest and management fee) ranging from 9% to 16% which were mainly secured by fixed assets; (2) the fact that the Loan is secured by share charges and guarantees, instead of real properties; and (3) the financial condition and liquidity position, in particular the gearing level, of the Group at the relevant time.

It is agreed that if an Event of Default occurs, the Group shall repay the Loan (and accrued interest) to China Minsheng Jiaye in full within five days after the occurrence of the Event of Default.

The Subscription Completion

Pursuant to the Subscription Agreement, the Subscription Completion shall take place on the second Business Day following the notification of the satisfaction or waiver of the Subscription Conditions. It is the intention of the parties to complete the Subscription as soon as practicable in accordance with the terms and conditions of the

Subscription Agreement. Subject to the satisfaction or waiver of the Subscription Conditions, the Company currently expects that the Subscription Completion will likely take place no later than 31 December 2015.

As at the Latest Practicable Date, none of the Subscription Conditions has been satisfied or waived.

Ranking

The Subscription Shares will, when issued, rank pari passu in all respects with the other Shares then in issue, including the rights to all dividends and other distributions declared, made or paid at any time after the date of allotment, free and clear of liens, charges, security interests, encumbrances and third party rights.

Representations and Warranties

In connection with the Subscription, the Company and SREI have given certain representations and warranties to the Subscribers in respect of, among other things, the underlying business and operations of the Group, ownership of the properties owned by the Group, compliance with applicable laws and litigation against the Group.

Specific Mandate

At the SGM, the Company will seek the Specific Mandate from the LR Independent Shareholders in order to issue the Subscription Shares.

Application for Listing

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

Other Information

Information about the Company

The Group is mainly engaged in real estate development, property leasing and hotel operations in Mainland China. The Group is an integrated real estate developer specialising in property development business. Geographically, Shanghai is the base for the Group's real estate development business, but the Group has been gradually expanding into capitals of various provinces and regional hubs with strong economic development potentials. While we are mainly a developer for medium-to-high end residential properties, we have been gradually building more commercial properties such as office buildings, hotels and shopping malls, aiming at becoming a fully integrated trans-regional real estate developer. Properties developed by the Group under the brand names of "Oasis Garden", "Rich Gate", "Skyway" and "Albany" enjoy a good reputation in both onshore and offshore markets including Shanghai, Shenyang, Haikou, Wuxi and Hong Kong.

Information about China Minsheng Jiaye and China Minsheng Investment

China Minsheng Jiaye is the real estate and industrial investment arm of China Minsheng Investment. The investment scope of China Minsheng Jiaye includes high quality real properties in key cities, investment and operation of multipliable assets, industrialisation of construction, industrial and cold chain logistics, healthcare, theme industry such as aged care and tourist industry, and other high criterion and high profitability industrial investment opportunities. Based on the information provided by China Minsheng Jiaye, the entire equity interest in China Minsheng Jiaye is held by China Minsheng Investment.

China Minsheng Investment is a large private investment company in Shanghai which was organised by The All-China Federation of Industry and Commerce in China and launched by 59 large scale private enterprises in China, some of which are among China's top 500 companies. China Minsheng Investment is a conglomerate with a wide variety of businesses including equity investment, equity investment management, business consulting, financial consulting, industrial investment, asset management, and investment consulting. Based on the information provided by China Minsheng Jiaye, as at the Latest Practicable Date, no single shareholder of China Minsheng Investment holds more than 4% of the voting rights or paid-up capital of China Minsheng Investment.

Information about Investor A

Investor A is a company incorporated in Hong Kong with limited liability and is wholly-owned by Ms. Mu Yan, a merchant in Shandong Province, China. The principal activity of Investor A is investment holding.

Information about Investor B

Investor B is a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Ms. Dong Xiao Li, a merchant in Beijing, China. The principal activity of Investor B is investment holding.

Information about Investor C

Investor C is a company incorporated in Hong Kong with limited liability and is wholly-owned by Mr. Tsar Chun Yeung, a merchant in Hong Kong. The principal activity of Investor C is investment holding.

Information about Investor D

Investor D is a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Mr. Liu Kun, a merchant in Beijing, China. The principal activity of Investor D is investment holding.

Information about Investor E

Investor E is a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Mr. Xia Wu Jie, a merchant in Zhejiang Province, China. The principal activity of Investor E is investment holding.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, China Minsheng Jiaye and the Investors and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Intention in relation to the Group

China Minsheng Jiaye and the Company intend to maintain the listing of the Shares on the Main Board of the Stock Exchange. The Subscription Agreement provides that to the extent permitted under the Listing Rules and the Takeovers Code, China Minsheng Jiaye has the right to nominate Directors for election at the SGM, such appointment being effective as of the Subscription Completion Date. None of the Investors are given any right to nominate any Directors. Pursuant to Bye-law 58 of the Bye-laws, Shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right to require a special general meeting to be called by the Board for the transaction of any business, including election or appointment of Directors, by written requisition to the Board or the Secretary of the Company.

Following the Subscription Completion, China Minsheng Jiaye intends to regularly review the operations and business activities of the Company and will explore other opportunities available to the Company. The core strategic focus of the Company will be on quality as opposed to scale for its high-quality development projects and renewal projects in the first-tier cities.

It is currently intended that China Minsheng Jiaye will introduce five strategic initiatives to support or grow the business of the Company as follows:

(a) *Injecting assets into the Company.* China Minsheng Jiaye will from time to time seek to inject its high-quality real estate projects or assets into the Company to the extent commercially reasonable, with a view to optimising the assets and capital structure of the Company and improving the stability and sustainability of the business of the Group in the long run. The Company will also seek to explore opportunities in mergers and acquisitions in the real estate sector and to enhance resource allocation, credit rating and market value of the Company.

(b) *Improving the financing structure of the Company.* Leveraging the strength of China Minsheng Investment in integrating its sector and financial capabilities, its high credit rating and its broad scope of licensed financial businesses, the Company will seek to utilise various onshore and offshore financial channels at a lower cost, with a view to improving its profitability significantly over time.

(c) *Focusing on opportunities in first-tier cities.* The Company will seek to focus primarily on high-quality property development opportunities in first-tier cities and particularly aim at seizing quality resources in core areas in Shanghai. The Company will extend its capabilities in primary development of land parcels and urban operation developed in the past years by integrating the same with the broad range of social resources of China Minsheng Investment, with a view to participating in both the upstream and downstream real estate sectors. The Company will also pay close attention to the Shanghai "Thirteenth Five-Year" plan for urban development and the overall development strategies of China, and explore new opportunities in urban redevelopment and renewal, medical and senior properties and cultural tourism and innovative technology properties.

(d) *Refining the existing products and services of the Company.* The Company will seek to reshape and increase the value of its existing brand names of "Rich Gate", "Oasis Garden", "SRE" and "SRE Property", enhance its business positioning in high-quality property development, provide better will also seek to take advantage of the size of its customer base in the real estate industry and further develop its internet finance business and the "i love e-home" O2O service platform, with a view to expanding the value-added services segment of its business.

(e) *Exploring the international market.* The Company will follow the economic cycle, China's "One Belt One Road" and "Going Global" strategies and the global sector strategy of China Minsheng Investment, and seek to enter major cities in the international market and develop an international asset and property portfolio.

At present, no definitive plan or timing has been determined for implementing any of the above strategies. China Minsheng Jiaye has no current intention to introduce to the Company any new business which is different in nature from the existing business of the Company, or to terminate the continued employment of the employees of the Group.

Use of Proceeds from the Subscription

The estimated net proceeds from the issue of the Subscription Shares to the Subscribers, after deduction of expenses, are approximately HK$1,486 million. Based on the repayment schedule of existing indebtedness and the existing level of cash reserve of the Group, approximately 70% of the net proceeds from the issue of the Subscription Shares is intended to be used to repay banks loans of the Group. The remaining approximately 30% will be used as general working capital and for the future development of the Group's real estate projects.

Having considered (i) for the three months ending 31 December 2015, the Group being required to repay the principal amount and interest of the Group's outstanding loans in an aggregate amount of approximately RMB2,365 million (taking into account the effect of the disposal of 60% equity interest in Mayson Resources Limited and 60% of the shareholder's loan owed by Mayson Resources Limited to Sinopower Investment Limited, a wholly owned subsidiary of the Company, as disclosed in the Company's announcement dated 30 October 2015 (the "**Major Disposal**")) falling due during the three months ending 31 December 2015, out of which the Loan in the amount of RMB560 million due in December 2015 could be extended by China Minsheng Jiaye after the Subscription Completion; (ii) free cash and bank balances of the Group amounting to approximately RMB918 million as at 30 September 2015; and (iii) the shortfall of the (i) and (ii) above of approximately HK$887 million could be covered by 70% of the estimated net proceeds of the Subscription amounting to approximately HK$ 1,040 million, the Directors consider that the allocation of approximately 70% of the net proceeds is in line with the short term capital needs of the Group in terms of repayment of its bank loans.

According to the annual report 2014 of the Company, the total selling and marketing expenses and administrative expenses of the Group for each of the past two years were approximately HK$340 million. The Group also expects to incur pre-construction expenses for its new real estate projects in the short term, subject to market conditions and financial position of the Group. Therefore the Directors consider that the allocation of approximately 30% of the net proceeds, amounting to approximately HK$446 million, for the purposes stated above is in line with the capital needs of the Group in terms of its daily operation and future project development.

Interests of the Subscribers

As at the Latest Practicable Date, neither China Minsheng Jiaye nor any party acting in concert with them owns, controls or directs any Shares or convertible securities, warrants or options (or outstanding derivatives) in respect of Shares.

As at the Latest Practicable Date, none of Investor A, Investor B, Investor C, Investor D and Investor E nor any of their respective ultimate beneficial owners owns, controls or directs any Shares or convertible securities, warrants or options (or outstanding derivatives) in respect of Shares.

Save for the entering into of the Subscription Agreement by the Subscribers, none of China Minsheng Jiaye nor any party acting in concert with them, Investor A, Investor B, Investor C, Investor D and Investor E nor any of their respective ultimate beneficial owners has dealt for value in any Shares or convertible securities, warrants or options (or outstanding derivatives) in respect of Shares during the Relevant Period.

Reasons for and Benefits of the Subscription

As disclosed in the annual report of the Group for the fiscal year 2014, the business of the Group has been significantly and negatively affected by the weak macro environment, as a result of which the Group's contracted sales, revenue and net profit have declined significantly over the years. In 2015, the Group's results of operation continued to underperform. In particular, revenue for the six months ended 30 June 2015 decreased by 48% to HK$536 million, as compared to the six months ended 30 June 2014, and loss attributable to owners of parent further deteriorated to reach HK$262 million.

While the Group is suffering declining sales and results of operations, it has expanded significantly in terms of business scale in recent years, which resulted in substantial increases in its cash requirements. As at 30 June 2015, the Group had outstanding borrowings in an aggregate amount of HK$19,172 million and had contracted for capital commitments amounting to HK$3,944 million. Nonetheless, as at the same date, the Group only had HK$2,240 million in cash reserves. A substantial amount of the Group's borrowings will be due before 31 December 2015, putting the Group under immense financial pressure to obtain immediate cash and financial resources and support in order to fund its cash flow requirements in the short term and to improve its financial condition in the medium to long term.

In view of the significant cash requirements for repayment of borrowings and its capital expenditures, the Company considers that China Minsheng Jiaye's investment will provide an immediate source of funds to enhance its cash flow in the short term. While China Minsheng Jiaye has provided short-term loans in an aggregate amount of RMB560 million to the Group during the past three weeks before the Subscription Agreement was concluded and entered into, it is estimated that upon the Subscription Completion, the Company will receive net proceeds amounting to HK$1,486 million from the Subscription. With the strong financial background of China Minsheng Jiaye as the Company's controlling shareholder upon the Subscription Completion, the Subscription is expected to also enable the Group to access broader financing options and borrow at lower interest costs in the medium to long term.

Upon the Subscription Completion, China Minsheng Jiaye will also provide a back-to-back indemnity in favour of the Company, with a view to remedying the undesirable financial implications of the Group's exposure to the contingent liabilities of the Third Party Indebtedness (as disclosed in the announcement of the Company dated 24 September 2015). The aggregate outstanding principal amount of the Third Party Indebtedness as at 31 August 2015 was approximately RMB2,382.7 million and the Group may be required to assume all repayment obligations in the event of payment default by third parties on the Third Party Indebtedness. The back-to-back indemnity will be given by China Minsheng Jiaye only upon the Subscription Completion as China Minsheng Jiaye will become the controlling shareholder of the Company and it is intended that the back-to-back indemnity will benefit the Company and all Shareholders as a whole.

Furthermore, the Company considers that the Subscription by China Minsheng Jiaye will bring about significant strategic benefits to the Group due to China Minsheng Jiaye's established operations in the real estate sector in China. See "Intention in relation to the Group" above.

The Company has considered other fund raising methods such as rights issue or open offer, and debt financing and considered that the Subscription is preferable for the following reasons:

(a) it would be difficult for financial institutions to provide facility up to such a substantial amount to the Group as proposed under the Subscription and debt financing would inevitably increase the financial costs of the Group; and

(b) a pre-emptive issue such as rights issue or open offer would not be able to bring in strategic investors as Shareholders, particularly China Minsheng Jiaye with a strong background and professional expertise.

In assessing the Group's funding need required for the repayment of the Group's outstanding loan, general working capital for the business operations of the Group and for the future property development projects of the Group, the Directors are of the view that the Subscription presents a good opportunity for the Company to raise a substantial amount of funds from the equity market to strengthen its financial position and the proceeds from the Subscription can satisfy the Company's expected funding needs for the next 12 months' period. The Directors are of the opinion that, after taking into account the financial resources and credit facilitates available to Group, the net proceeds from the Major Disposal and the net proceeds from the Subscription, the Group will have sufficient working capital to satisfy its present requirements for the next twelve months from the date of this circular in the absence of unforeseen circumstances. As at the Latest Practicable Date, the Company has no intention to carry out any equity fund raising activities for the next 12 months

The Board (including the independent non-executive Directors whose opinion is set out in the letter of recommendation from the IBC as contained in this circular) considers that the terms of the Subscription as a whole and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Amongst the members of the Board:

(a) Mr. Shi Jian is a director and 36% shareholder of SREI and is materially interested in the Subscription; and

(b) Mr. Shi Janson Bing is the son of Mr. Shi Jian, which falls under the definition of associate of Mr. Shi Jian, and is therefore materially interested in the Subscription.

Mr. Shi Jian absented from the board meeting of the Company in which the resolutions approving the Subscription was considered and voted upon.

Pursuant to the Bye-laws, Mr. Shi Janson Bing abstained from voting at the board meeting of the Company in respect of the resolutions approving the Subscription, nor was he counted towards the quorum in respect of such resolutions.

Equity Fund Raising Activities in the Last 12 Months

The Company did not raise any funds from any equity fund raising activities in the past 12 months immediately before the date of the Announcement.

APPLICATION FOR WHITEWASH WAIVER

China Minsheng Jiaye and parties acting in concert with them do not (as at the Latest Practicable Date) own, control or direct any Shares or convertible securities, warrants or options (or outstanding derivatives) in respect of Shares.

Upon the Subscription Completion, China Minsheng Jiaye and parties acting in concert with them will hold 12,500,000,000 Shares, representing approximately 60.78% of the voting rights of the Company as enlarged by the issue of the Subscription Shares. As a result, China Minsheng Jiaye and parties acting in concert with them will be obliged to make a mandatory general offer for all the issued Shares (other than those already owned or agreed to be acquired by China Minsheng Jiaye and parties acting in concert with them) pursuant to Rule 26.1 of the Takeovers Code.

China Minsheng Jiaye has made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code which, if granted, will be subject to, among other things, approval by the TC Independent Shareholders in respect of the Subscription and the Whitewash Waiver at the SGM by way of poll. The granting by the Executive of the Whitewash Waiver and the approval of the TC Independent Shareholders are part of the Subscription Conditions and cannot be waived.

If the Whitewash Waiver is approved by the TC Independent Shareholders, the shareholding of China Minsheng Jiaye in the Company will exceed 50% upon the Subscription Completion. China Minsheng Jiaye may further increase its shareholding in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

OTHER ARRANGEMENT

Reference is made to the announcement of the Company on 24 September 2015 (the “**Financing Transaction Announcement**”) and 3 November 2015 regarding certain Financing Transactions (as defined therein). In connection with those Financing Transactions, the Company and/or certain of its subsidiaries were found to have executed certain guarantee and a mortgage in favour of banks for the Third Party Indebtedness of certain connected persons of Mr. Shi Jian (the “**Connected Persons**”). The aggregate outstanding principal amount of the Third Party Indebtedness as at 31 August 2015 was approximately RMB2,382.7 million.

Based on the preliminary investigation of the Company, taking into account the Company’s enquiries with the borrowers of the Third Party Indebtedness and the lenders, (a) the total outstanding balance of the loans secured by the Financing Transactions was RMB2,382,740,000 (equivalent to approximately HK$2,906,942,800) as of 31 August 2015; (b) the Group does not have any immediate risk of monetary damages as there has been no default in repayment of the borrowers on any of the loans; (c) all the loans secured by the Financing Transactions (save and except the Fifth Loan with an outstanding balance of RMB30,000,000 (equivalent to approximately HK$36,600,000) as of 31 August 2015) were also secured by mortgages or charges over properties, land or equity provided by the borrowers of the Third Party Indebtedness (collectively, the "**Security by Connected Persons**"), with market value of the Security by Connected Persons being above the current outstanding balance of the loans; and (d) the Company was informed by the borrowers that they intend to make, and are capable of making, punctual repayments on the loans in accordance with the repayment schedules. On that basis, the Board considers that the Financing Transactions have not brought about any immediate risks of material adverse impact on the financial position of the Group. However, the Company wishes to emphasize that the above findings and analysis are of a preliminary nature.

Due to the Financing Transactions, the Group may be required to assume all repayment obligations in respect of the Third Party Indebtedness in the event of payment default on the Third Party Indebtedness. China Minsheng Jiaye has confirmed that it has a comprehensive understanding of the Financing Transactions. In order to remedy the undesirable financial implications of the Group's exposure to the contingent liabilities of the Third Party Indebtedness, China Minsheng Jiaye will, upon the Subscription Completion, provide a back-to-back indemnity in favour of the Company (the "**CMJI Indemnity**") to indemnify and hold harmless the Group from and against any losses and costs that it has incurred as a result of the performance of the Financing Transactions by the Company or any of its subsidiaries, on the term that the Company shall account to China Minsheng Jiaye any proceeds, compensation or money that it may have received or recovered from any persons in relation to the Third Party Indebtedness as a result of the enforcement of the existing collateral provided to the lending banks by the borrowers of the Third Party Indebtedness or otherwise.

If it was later discovered that the Company has provided undisclosed guarantee(s) for other third party indebtedness:

(a) China Minsheng Jiaye will not be required to provide further back-to-back indemnity in favour of the Company, but it may consider doing so at that time depending on, among other factors, the circumstances and amount of the contingent liabilities involved; and

(b) it will constitute a breach of representation under the Subscription Agreement and as a result China Minsheng Jiaye will have the right to decide not to proceed with the Subscription Completion.

To further mitigate the potential loss arising from the Financing Transactions, on 3 November 2015, SREI and Madam Si Xiao Dong entered into an irrevocable and unconditional undertaking in favour of the Company (on its own and its subsidiaries' behalf) to indemnify and hold harmless the Group for any losses arising from its payment obligations arising from the Financing Transactions (the "**SREI Indemnities**").

The Directors are of the view that the SREI Indemnities will, together with the CMJI Indemnity, be able to relieve the Group of the undesirable risk exposure, contingent liabilities and uncertainties caused by the Financing Transactions.

As disclosed in the Financing Transactions Announcement, the Board has established an investigation committee (the "**Investigation Committee**"), comprising all the independent non-executive Directors as members, to further investigate the Financing Transactions and to review the internal control system of the Group.

As of the Latest Practicable Date, the following work has been performed by the Company to identify unreported transactions, if any, which might have been executed by Mr. Shi Jian for and on behalf of the Group prior to his custody at a designated residence as required by the Changzhou City People's Procuratorate of the PRC as announced by the Company on 9 June 2015 and his suspension of duties on 21 September 2015:

(1) A special task force (the "**Investigation Team**") comprising Mr. Ma Dayu, Mr. Wang Pei Liang and Ms. Cai Hongcha was formed to investigate the Financing Transactions and all works executed by Mr. Shi for the Group in the past. Mr. Ma, an Executive Director of the Company, is responsible for supervising the work of the Investigation Team and conducting enquiries with the family of Mr. Shi Jian, SREI and the directors of SREI. Mr. Wang, a Vice-President of the Group, has solid background and expertise relating to finance and is responsible for detailed review of financing-related contracts and documents and making contacts with banks. Ms. Cai, Head of Group Comprehensive Engineering Department, is familiar with the internal control, approval process and reporting lines of the Group and is responsible for detailed review of internal control records of the Group. No member of the Investigation Team is connected to Mr. Shi Jian or SREI.

(2) All physical and electronic documents possessed in Mr. Shi Jian's office have been retrieved and were reviewed by the Investigation Team.

(3) The Investigation Team has conducted a series of internal interviews within the Group and external interviews with third parties. These included interviews with (i) key responsible officers of the Group and the Connected Persons, (ii) Madam Si Xiao Dong (spouse of Mr. Shi Jian), Mr. Shi Janson Bing (son of Mr. Shi Jian, Vice-chairman and Executive Director of the Company) and the other two directors of SREI, and (iii) the bank managers of the banks which have business relationship with the Company, SREI and the Connected Persons. The Investigation Team has also obtained confirmations from the lenders of the loans relating to the Financing Transactions, acknowledging that they are not aware of any other unreported financing transactions.

(4) The Investigation Team has reviewed the existing internal control system and records of the Group.

(5) The Investigation Team has reviewed the basic credit information reports provided by the credit reference system of the People's Bank of China as of October 2015. These credit reports did not reveal any other unreported transactions apart from the Financing Transactions.

Based on the Investigation Team's findings, and subject to further updates to be reported by the independent internal control adviser and forensic specialist, the Investigation Committee is of the view that:

(1) Each of the Financing Transactions was executed or procured by a single Director, namely, Mr. Shi Jian, on behalf of the Company without the knowledge of the other Directors at the relevant time.

(2) The Financing Transactions comprised a series of transactions relating to the Disposal Agreement (as defined in the Financing Transactions Announcement) entered into by SREI on 10 October 2013 or otherwise relating to the Disposal Assets (as defined in the Financing Transactions Announcement) or SREI and did not arise from six separate incidents of internal control failure.

(3) Mr. Shi Jian and SREI have no side business and all businesses of Mr. Shi Jian and SREI were property in nature and were conducted through the Company, China New Town Development Company Limited and Black Eagle (Shanghai) Investment Management Limited.

(4) The work performed by the Investigation Team did not reveal any other unreported transactions apart from the Financing Transactions which have been disclosed in the Financing Transactions Announcement.

(5) The Company has put in place sufficient safeguards to monitor the provision of guarantee and collateral by the Group to parties outside the Group. No significant design failure or ineffectiveness of the Group's internal control system was identified.

(6) In light of the evidence obtained or reviewed by the Investigation Team, the incidents arising from the Financing Transactions might have been resulted from the intentional circumvention of the internal control procedures by Mr. Shi Jian.

The Investigation Committee has resolved to carry out the following procedures to prevent the occurrence of similar incidents in future:

(1) On 21 September 2015, the Board has already suspended all executive functions of Mr. Shi Jian in the Group with immediate effect. In light of the Investigation Team's findings, the Board and the Investigation Committee consider that it is no longer appropriate for Mr. Shi Jian to continue to be a

director of the Company or its subsidiaries. The Company is carrying out steps to remove Mr. Shi Jian from the board of directors of the Company and its subsidiaries.

(2) The Board will engage a qualified internal control adviser to carry out a thorough internal control review on the Group and to make recommendations to the Company. Upon completion of this process, the Company will publish the key findings of the internal control review report by way of announcement.

(3) The Board will also engage an independent forensic specialist to conduct a forensic investigation on the incidents arising from the Financing Transactions and to assess the impact on the Company's financial and operational position. Upon completion of this process, the Company will publish the key findings of the forensic investigation report by way of announcement.

(4) Immediate actions have been taken to further tighten the internal control procedures of the Group as regards the use of company chops and seals, applications for loans and facilities and the provision of guarantees, indemnities, charges and pledges, and clear guidance and reiteration of the reporting line and approval process for all financing transactions.

The Company has carefully considered the existing disclosure of the Company's annual reports, taking into account, in particular, the facts that: (a) there has been no default in repayment of the borrowers on any of the loans; (b) all the loans secured by the Financing Transactions (save and except the Fifth Loan (as defined therein). with an outstanding balance of RMB25,000,000) were also secured by the Security by Connected Persons, with market value of the Security by Connected Persons being above the current outstanding balance of the loans; (c) the Company was informed by the borrowers that they intend to make, and are capable of making, punctual repayments on the loans in accordance with the repayment schedules; (d) subject to completion of the Subscription, China Minsheng Jiaye has agreed to provide the CMJI Indemnity to fully indemnify and hold harmless the Group for any losses arising from its payment obligations arising from the Financing Transactions; and (e) each of SREI and Madam Si Xiao Dong also provided the SREI Indemnities to indemnify and hold harmless the Group for any losses arising from its payment obligations arising from the Financing Transactions.

After considering the above, in particular the provision of the CMJI Indemnity and the SREI Indemnities in favour of the Company, the Company is of the view that (a) no provision is required to be made in connection with the provision of guarantees and collaterals under the Financing Transactions; and (b) there is no need to restate the net assets and net profit of the Group as reported in the Company's annual report for 2014 and previous years if all conditions stated in the paragraph above are satisfied.

The Company will closely monitor the development of the matters relating to the Financing Transactions and will make further announcements as and when there is significant development of the matters. So far as the Company is aware, as at the Latest Practicable Date, there is no other inside information that is required to be disclosed.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company is HK$800,000,000 divided into 8,000,000,000 Shares, of which 5,664,713,722 Shares have been allotted and issued as fully paid or credited as fully paid. In order for the Company to carry out the Subscription, the Board proposes to increase the authorised share capital of the Company from HK$800,000,000 to HK$5,000,000,000 by authorising the creation of an additional 42,000,000,000 Shares. The proposed Share Capital Increase is subject to the approval of the Shareholders at the SGM.

Immediately after the Share Capital Increase, the authorised share capital of the Company will be HK$5,000,000,000 divided into 50,000,000,000 Shares.

An ordinary resolution, to be voted by way of a poll, to approve the Share Capital Increase will be proposed at the SGM.

CHANGES TO BOARD COMPOSITION OF THE COMPANY

Proposed removal of Mr. Shi Jian as a Director

Bye-law 86(4) of the Bye-laws provides that the Shareholders may, at any general meeting convened and held in accordance with the Bye-laws, by ordinary resolution remove a Director (including a managing Director or other executive Director) at any time before the expiration of his period of office notwithstanding anything in the Bye-laws or in any agreement between the Company and such Director.

As stated in the Company's announcement dated 9 June 2015, the Changzhou City People's Procuratorate of the People's Republic of China has required Mr. Shi Jian to stay under custody at a designated residence. In addition, as disclosed in the Company's announcement dated 24 September 2015, it was unraveled that certain Financing Transactions (as defined therein) were executed by Mr. Shi Jian, purportedly acting for and on behalf of certain members of the Group, between 2011 and 2014 with third party financial institutions without the knowledge of the other Directors at the relevant time. The above calls into question the ability of Mr. Shi Jian to be a fit and proper person to continue to discharge his responsibilities as an executive Director and the Chairman of the Board.

Accordingly, the Board is of the view that it would not be in the best interests of the Company and the Shareholders to allow Mr. Shi Jian to continue to be a Director and therefore proposes an ordinary resolution at the SGM to remove Mr. Shi Jian as an executive Director and the Chairman of the Board in accordance with the Bye-laws. Mr. Shi Jian shall also cease to be the chairman of the Nomination Committee of the Board upon his removal as an executive Director.

Resignation of Directors

Subject to the Subscription Completion having taken place, each of Mr. Ma Dayu, Mr. Li Genfa, Mr. Shi Lizhou, Mr. Cheung Wing Yui and Mr. Jin Bing Rong will resign as Directors with effect from the Subscription Completion Date.

Proposed appointment of Directors

In place of the above resigning Directors, the Board proposes to appoint the following candidates, who are nominated by China Minsheng Jiaye pursuant to the Subscription Agreement, as Directors with effect upon the Subscription Completion, subject to the Shareholders' approval by ordinary resolutions at the SGM in accordance with Bye-law 86(1) of the Bye-laws:

(a) Mr. HE Binwu as an executive Director;

(b) Mr. PENG Xinkuang as an executive Director;

(c) Mr. CHEN Chao as an executive Director;

(d) Mr. ZHU Qiang as an executive Director; and

(e) Mr. ZHAO Xiaodong as an executive Director.

The biographical details of the above candidates as required to be disclosed under the Listing Rules are provided by China Minsheng Jiaye and set out in Appendix II to this circular.

Proposed re-election of Mr. Shi Janson Bing as an executive Director

Reference is made to the announcement of the Company dated 17 July 2015 in relation to the appointment of Mr. Shi Janson Bing as an executive Director and a Vice-chairman of the Board. Pursuant to code provision A.4.2 of Appendix 14 of the Listing Rules, Mr. Shi Janson Bing will retire as an executive Director and, being eligible, offer himself for re-election at the SGM. Resolution for the re-election of Mr. Shi Janson Bing as an executive Director will be proposed at the SGM. The biographical details of Mr. Shi Janson Bing are set out in Appendix II to this circular.

EFFECT OF THE TRANSACTIONS

As at the Latest Practicable Date, the Company has in issue 5,664,713,722 Shares.

The table below sets out the shareholding structure of the Company: (a) as at the Latest Practicable Date; and (b) immediately after the Subscription Completion:

	As at the date of Latest Practicable Date		**Immediately after the Subscription Completion**	
	No. of Shares	%	*No. of Shares*	%
SREI	2,889,659,128	51.01	2,889,659,128	14.05
Directors				
Mr. Shi Jian & Md. Si Xiao Dong *(Note 1)*	13,009,315	0.23	13,009,315	0.06
Mr. Zhuo Fumin *(Note 2)*	160,000	0.00	160,000	0.00
China Minsheng Jiaye			12,500,000,000	60.78
Public shareholders				
Investor A			700,000,000	3.40
Investor B			500,000,000	2.43
Investor C			500,000,000	2.43
Investor D			500,000,000	2.43
Investor E			200,000,000	0.98
Existing public shareholders	2,761,885,279	48.76	2,761,885,279	13.44
Public sub-total	2,761,885,279	48.76	5,161,885,279	25.11
Total	5,664,713,722	100.00%	20,564,713,722	100.00%

Notes:

1. Mr. Shi Jian is a director of the Company and holds 13,006,991 Shares. Md. Si Xiao Dong is Mr. Shi Jian's spouse and holds 2,324 Shares.

2. Mr. Zhuo Fumin is a director of the Company. His spouse, Md. He Pei Pei, holds 160,000 Shares.

Following the Subscription Completion, the Shares held by the core connected persons, including China Minsheng Jiaye (or its wholly-owned subsidiary), SREI and the Directors, and their respective close associates, would not count towards the public float. As each of the Investors holds less than 10% of the issued Shares, they are not substantial shareholders of the Company and would count as part of the public float.

None of the securities of the Company is listed or dealt in on any stock exchange (other than the Stock Exchange) and no such listing or permission to deal is being or is proposed to be sought.

As at the Latest Practicable Date, the Company has no outstanding share options or convertible securities entitling any person to subscribe for Shares.

3 GENERAL

All resolutions to be put to vote at the SGM will be taken by way of a poll in accordance with the Listing Rules and the Takeovers Code.

As at the Latest Practicable Date and on the date of the SGM, China Minsheng Jiaye, China Minsheng Investment and parties acting in concert with them do not, and will not, hold any Shares or other securities in the Company. In any event, China Minsheng Jiaye, China Minsheng Investment and parties acting in concert with them are not entitled to vote on any of the resolutions relating to the Subscription, the Specific Mandate and the Whitewash Waiver.

Under the Takeovers Code, Shareholders who are involved or interested (as defined in the Takeovers Code) in the Subscription and the Whitewash Waiver shall abstain in voting on the relevant resolutions relating to the Subscription and the Whitewash Waiver. SREI and SREI Concert Parties are deemed to be involved or interested (as defined in the Takeovers Code) in the Subscription and the Whitewash Waiver and shall abstain in voting on the relevant resolutions relating to the Subscription and the Whitewash Waiver. Only the TC Independent Shareholders will be eligible to vote on the relevant resolutions relating to the Subscription and the Whitewash Waiver.

Under the Listing Rules, Shareholders who have a material interest (within the meaning of the Listing Rules) in the Subscription and the Specific Mandate shall abstain in voting on the relevant resolutions relating to the Subscription and the Specific Mandate. SREI, its directors, substantial shareholders and their respective associates are deemed to have a material interest (within the meaning of the Listing Rules) in the Subscription and the Specific Mandate and shall abstain in voting on the relevant resolutions relating to the Subscription and the Specific Mandate. Only the LR Independent Shareholders will be eligible to vote on the relevant resolutions relating to the Subscription and the Specific Mandate.

In addition, all other shareholders of SREI (who are neither SREI's directors or substantial shareholders or their respective associates, nor parties acting in concert or presumed to be acting in concert with SREI) who hold direct interest in Shares have undertaken to abstain from voting on the relevant resolutions relating to the Subscription, the Specific Mandate and the Whitewash Waiver at the SGM.

To the best of the Directors' knowledge, information and belief, no Shareholder has a material interest in the Share Capital Increase and accordingly, no Shareholder is required to abstain from voting on the resolution approving the Share Capital Increase.

To the best of the Directors' knowledge, information and belief, no Shareholder has a material interest in (a) the removal of Mr. Shi Jian as a Director; (b) the appointment of the new Directors nominated by China Minsheng Jiaye; and (c) the re-election of Mr. Shi Janson Bing as an executive Director, and accordingly no Shareholder is required to abstain from voting on the relevant resolutions at the SGM. That having said, the Company was informed by SREI and Madam Si Xiao Dong that they intend to abstain in voting in respect of the relevant resolutions at the SGM in respect of the removal of Mr. Shi Jian, the appointment of directors nominated by China Minsheng Jiaye and the re-election of Mr. Shi Janson Bing.

4 RECOMMENDATION

Your attention is drawn to:

(1) the letter of recommendation from the IBC set out on pages 33 to 34 of this circular which contains the recommendation of the IBC to the Independent Shareholders concerning, among others, the Subscription and the Whitewash Waiver; and

(2) the letter of advice form the IFA set out on pages 35 to 60 of this circular which contains its recommendations to the IBC and the Independent Shareholders on, among others, the Subscription and the Whitewash Waiver and the principal factors and reasons considered by the IFA in arriving at its recommendations.

The Board considers that the Share Capital Increase, the Subscription, the Specific Mandate and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole and recommends the Independent Shareholders to vote in favour of all the relevant resolutions to be proposed at the SGM.

The Board also considers that the proposals for (a) the removal of Mr. Shi Jian as a Director; (b) the appointment of the new Directors nominated by China Minsheng Jiaye; and (c) the re-election of Mr. Shi Janson Bing as an executive Director are in the interests of the Company and the Shareholders as a whole, and accordingly recommends the Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM.

5 ADDITIONAL INFORMATION

Your attention is also drawn to the additional information as set out in the appendices to this circular and the notice of the SGM.

By Order of the Board
SRE Group Limited
Wang Zi Xiong
Co-chairman & Chief Executive Officer

SRE GROUP LTD.

SRE GROUP LIMITED
上置集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 1207)

16 November 2015

To the Independent Shareholders,

Dear Sir or Madam,

(1) PROPOSED ISSUE OF NEW SHARES TO THE SUBSCRIBERS UNDER SPECIFIC MANDATE;
(2) APPLICATION FOR WHITEWASH WAIVER;
(3) OTHER ARRANGEMENT;
(4) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL; AND
(5) PROPOSED REMOVAL, APPOINTMENT AND RE-ELECTION OF DIRECTORS

We refer to the circular of the Company to the Shareholders dated 16 November 2015 (the "Circular"), of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular have the same meanings when used in this letter.

We have been appointed by the Board as members of the IBC to advise the Independent Shareholders as to whether the terms of the relevant Transactions are fair and reasonable so far as the Independent Shareholders are concerned.

We wish to draw your attention to the "Letter from the Board" as set out on pages 8 to 32 of the Circular and the "Letter from the IFA" which contains, among other things, the IFA's advice, opinions and recommendations regarding the Subscription and the Whitewash Waiver, and the principal factors and reasons taken into consideration for its advice and recommendations, as set out on pages 35 to 60 of the Circular.

Having given due consideration to the terms of the Transactions and to the advice and recommendations of the IFA:

(a) we consider the terms of the Subscription to be fair and reasonable so far as the Independent Shareholders are concerned and, accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Subscription Agreement (and the transactions contemplated thereunder) and the Specific Mandate; and

* *For identification purpose only*

(b) we consider the terms of the Whitewash Waiver to be fair and reasonable so far as the Independent Shareholders are concerned and, accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Whitewash Waiver.

Yours faithfully,
For and on behalf of
the Independent Board Committee of
SRE Group Limited

Mr. Cheung Wing Yui	**Mr. Jin Bing Rong**

Non-executive Directors

Mr. Zhuo Fumin	**Mr. Chan, Charles Sheung Wai**
Mr. Yang Chao	**Mr. Guoping**

Independent Non-executive Directors

The following is the text of a letter of advice from the IFA to the IBC and the Independent Shareholders prepared for inclusion in this circular.

AMASSE CAPITAL
寶 積 資 本

16 November 2015

To the IBC and the Independent Shareholders

Dear Sirs,

PROPOSED ISSUE OF NEW SHARES TO THE SUBSCRIBERS UNDER SPECIFIC MANDATE AND APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the IFA to the Independent Board Committee and the Independent Shareholders in respect of the Subscription and the Whitewash Waiver, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 16 November 2015 (the "**Circular**"), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 9 October 2015, the Company, the Subscribers (including China Minsheng Jiaye and the Investors) and SREI entered into the Subscription Agreement, pursuant to which the Company conditionally agreed to issue, and the Subscribers conditionally agreed to subscribe for, an aggregate of 14,900,000,000 Subscription Shares at the Subscription Price of HK$0.10 per Subscription Share for a total cash consideration of HK$1,490,000,000.

As stated in the Letter from the Board, China Minsheng Jiaye and parties acting in concert with them do not (as at the Latest Practicable Date) own, control or direct any Shares or convertible securities, warrants or options (or outstanding derivatives) in respect of Shares. Upon the Subscription Completion, China Minsheng Jiaye and parties acting in concert with them will hold 12,500,000,000 Shares, representing approximately 60.78% of the voting rights of the Company as enlarged by the issue of the Subscription Shares. As a result, China Minsheng Jiaye and parties acting in concert with them will be obliged to make a mandatory general offer for all the issued Shares (other than those already owned or agreed to be acquired by China Minsheng Jiaye and parties acting in concert with them) pursuant to Rule 26.1 of the Takeovers Code.

China Minsheng Jiaye has made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code which, if granted, will be subject to, among other things, approval by the TC Independent Shareholders in respect of the Subscription and the Whitewash Waiver at the SGM by way of poll. The granting by the Executive of the Whitewash Waiver and the approval of the TC Independent Shareholders are part of the Subscription Conditions and cannot be waived. Therefore, unless the Whitewash Waiver is granted, the Subscription will not proceed.

The IBC comprising all the non-executive Directors and the independent non-executive Directors, who have no direct or indirect interest in the Subscription and the Whitewash Waiver, has been established for the purpose of considering and advising: (i) the TC Independent Shareholders as to whether the terms of the Subscription and the Whitewash Waiver are fair and reasonable; and (ii) the LR Independent Shareholders as to whether the terms of the Subscription and the Specific Mandate are fair and reasonable and in the interest of the Company and the Shareholders as a whole and the voting action that should be taken by Independent Shareholders. We have been appointed by the Company as the IFA to advise the IBC and the Independent Shareholders in this respect, and such appointment has been approved by the IBC.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, opinion and representations contained or referred to in the Circular and the information, opinion and representations provided to us by the management of the Company and the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the management of the Company and the Directors, for which they are solely and wholly responsible, were true, accurate and complete at the time when they were made and continue to be so as at the date of the SGM. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the letter from the Board in the Circular were reasonably made after due and careful inquiry. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and representations contained in the Circular. The Directors collectively and individually accept full responsibility for the accuracy of the information in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information to enable us to reach an informed view regarding the Subscription and the Whitewash Waiver. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted an independent in-depth investigation into the business and affairs of the Group.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion in respect of the Subscription and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

1. Information on the Group and China Minsheng Jiaye

1.1 Information on the Group

The Group is mainly engaged in real estate development, property leasing and hotel operations in Mainland China. The Group is an integrated real estate developer specializing in property development business. Geographically, Shanghai is the base for the Group's real estate development business, but the Group has been gradually expanding into capitals of various provinces and regional hubs with strong economic development potentials. While the Group is mainly a developer for medium-to-high end residential properties, it has been gradually building more commercial properties such as office buildings, hotels and shopping malls. The Group generally develops premium properties under the proprietary brand names of "Oasis Garden", "Rich Gate", "Skyway" and "Albany".

Set out below is a summary of the financial information of the Group as extracted from the annual report of the Company for the year ended 31 December 2014 (the "**2014 Annual Report**") and the interim report of the Company for the six months ended 30 June 2015 (the "**2015 Interim Report**"), details of which are as follows:

	For the six months ended 30 June		For the year ended 31 December	
	2015	**2014**	**2014**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Unaudited)*	*(Audited)*	*(Audited)*
Revenue				
– Property development	261,767	808,806	960,402	2,897,110
– Property leasing	60,879	48,582	106,078	88,094
– Hotel operations	97,990	85,218	183,755	184,073
– Corporate and other operations	114,932	86,483	189,721	175,001
Total revenue	*535,568*	*1,029,089*	*1,439,956*	*3,344,278*
Gross profit	94,659	421,748	306,652	956,428
(Loss)/profit before tax	(323,935)	97,629	567,875	499,739
(Loss)/profit attributable to the parent	(261,646)	9,512	(105,954)	200,171

For the year ended 31 December 2014

For the year ended 31 December 2014, the Group recorded a revenue of approximately HK$1,440 million when compared to a revenue of approximately HK$3,344 million for the corresponding period in 2013, representing a decrease of approximately 57%. Loss attributable to the owners of the parent for the year ended 31 December 2014 amounted to approximately HK$106 million when compared to a profit attributable to the owners of the parent for the corresponding period in 2013 of approximately HK$200 million. According to the 2014 Annual Report, the said losses were mainly due to the slackening of the property market in the PRC.

For the six months ended 30 June 2015

For the six months ended 30 June 2015, the Group recorded a revenue of approximately HK$536 million when compared to a revenue of approximately HK$1,029 million for the corresponding period in 2014, representing a decrease of approximately 48%. Loss attributable to the owners of the parent for the six months ended 30 June 2015 amounted to approximately HK$262 million as compared to a profit attributable to the owners of the parent for the corresponding period in 2014 of approximately HK$10 million.

We noted that the Group recorded consecutive losses attributable to the owner of parent for the year ended 31 December 2014 and for the six month ended 30 June 2015.

1.2 Information on China Minsheng Jiaye

As stated in the Letter from the Board, China Minsheng Jiaye is the real estate and industrial investment arm of China Minsheng Investment. The investment scope of China Minsheng Jiaye includes high quality real properties in key cities, investment and operation of multipliable assets, industrialisation of construction, industrial and cold chain logistics, healthcare, theme industry such as aged care and tourist industry, and other high criterion and high profitability industrial investment opportunities. Based on the information provided by China Minsheng Jiaye, the entire equity interest in China Minsheng Jiaye is held by China Minsheng Investment.

In addition, as stated in the Letter from the Board, China Minsheng Investment is a large private investment company in Shanghai which was organised by The All-China Federation of Industry and Commerce in China and launched by 59 large scale private enterprises in China with a registered capital of RMB50 billion, some of which are among China's top 500 companies. China Minsheng Investment is a conglomerate with a wide variety of businesses including equity investment, equity investment management, business consulting, financial consulting, industrial investment, asset management, and investment consulting. Based on the information provided by China Minsheng Jiaye, as at the Latest Practicable Date, no single shareholder of China Minsheng Investment holds more than 4% of the voting rights or paid-up capital of China Minsheng Investment.

1.3 Intention of China Minsheng Jiaye in relation to the Group

As stated in the Letter from the Board, following the Subscription Completion, China Minsheng Jiaye intends to regularly review the operations and business activities of the Company and will explore other opportunities available to the Company. The core strategic focus of the Company will be on quality as opposed to scale for its high quality development projects and renewal projects in the first-tier cities.

It is currently intended that China Minsheng Jiaye will introduce five strategic initiatives to support or grow the business of the Company as follows:

(a) *Injecting assets into the Company.* China Minsheng Jiaye will from time to time seek to inject its high-quality real estate projects or assets into the Company to the extent commercially acceptable, with a view to optimising the assets and capital structure of the Company and improving the stability and sustainability of the business of the Group in the long run. The Company will also seek to explore opportunities in mergers and acquisitions in the real estate sector and to enhance resource allocation, credit rating and market value of the Company.

(b) *Improving the financing structure of the Company.* Leveraging the strength of China Minsheng Investment in integrating its sector and financial capabilities, its high credit rating and its broad scope of licensed financial businesses, the Company will seek to utilise various onshore and offshore financial channels at a lower cost, with a view to improving its profitability significantly over time.

(c) *Focusing on opportunities in first-tier cities.* The Company will seek to focus primarily on high-quality property development opportunities in first-tier cities and particularly aim at seizing quality resources in core areas in Shanghai. The Company will extend its capabilities in primary development of land parcels and urban operation developed in the past years by integrating the same with the broad range of social resources of China Minsheng Investment, with a view to participating in both the upstream and downstream real estate sectors. The Company will also pay close attention to the Shanghai "Thirteenth Five-Year" plan for urban development and the overall development strategies of China, and explore new opportunities in urban redevelopment and renewal, medical and senior properties and cultural tourism and innovative technology properties.

(d) *Refining the existing products and services of the Company.* The Company will seek to reshape and increase the value of its existing brand names of "Rich Gate", "Oasis Garden", "SRE" and "SRE Property", enhance its business positioning in high-quality property development, provide better experience to its customers and enhance its premium capacity. The Company will also seek to take advantage of the size of its customer base in the real estate industry and further develop its internet finance business and the "I love e-home" O2O service platform, with a view to expanding the value-added services segment of its business.

As advised by the management of the Company, among the shareholders of China Minsheng Investment, some of them are sizeable PRC real estate developers who could share the resources with the Company, including the sharing of customer base and valuable investment partners and the exchange of industry experience and knowledge. With the sharing by and cooperation with China Minsheng Investment, the Group would not only refine its existing business but also sharpen the brand name.

(e) *Exploring the international market.* The Company will follow the economic cycle, China's "One Belt One Road" and "Going Global" strategies and the global sector strategy of China Minsheng Investment, and seek to enter major cities in the international market and develop an international asset and property portfolio.

The Shareholders should note that at present, no definitive plan or timing has been determined for implementing any of the above strategies. China Minsheng Jiaye has no current intention to introduce to the Company any new business which is different in nature from the existing business of the Company, or to terminate the continued employment of the employees of the Group.

Having considered the sound financial and business background of China Minsheng Jiaye and the potential benefit to be derived from introduction of strategic initiatives by China Minsheng Jiaye and China Minsheng Investment as disclosed above, the Directors consider that the introduction of China Minsheng Jiaye as a strategic partner will benefit the Group's long term development and bring additional investment opportunities to the Company. The Directors believe that China Minsheng Jiaye will provide sustainable support to the Group as a controlling shareholder of the Company upon completion of the Subscription.

2. Reasons for and Benefits of and Use of Proceed from the Subscription

2.1 Reasons for and Benefits of the Subscription

As disclosed in the annual report of the Group for the fiscal year 2014, the business of the Group has been significantly and negatively affected by the weak macro environment, as a result of which the Group's contracted sales, revenue and net profit have declined significantly over the years. In 2015, the Group's results of operation continued to underperform. In particular, revenue for the six months ended 30 June 2015 decreased by 48% to HK$536 million, as compared to the six months ended 30 June 2014, and loss attributable to owners of parent further deteriorated to reach HK$262 million.

While the Group is suffering declining sales and results of operations, it has expanded significantly in terms of business scale in recent years, which resulted in substantial increases in its cash requirements. As at 30 June 2015, the Group had outstanding borrowings in an aggregate amount of HK$19,172 million and had contracted for capital commitments amounting to HK$3,944 million. Nonetheless, as at the same date, the Group only had HK$2,240 million in cash reserves. A substantial amount of the Group's borrowings will be due before 31 December 2015, putting the Group under immense financial pressure to obtain immediate cash and financial resources and support in order to fund its cash flow requirements in the short term and to improve its financial condition in the medium to long term.

Reference is also made to the announcement of the Company dated 30 October 2015. It was disclosed in the said announcement that, Mainlandcn Ten Company Limited (the "**Purchaser**"), as purchaser, and Sinopower Investment Limited (the "**Vendor**"), a wholly owned subsidiary of the Company, as vendor, entered into a sale and purchase agreement dated 30 October 2015, pursuant to which the Vendor agreed to sell and the Purchaser agreed to acquire (i) 60% equity interest in Mayson Resources Limited (the "**Target Company**"), a wholly owned subsidiary of the Company which in turn owned 100% equity interest in Shanghai Shuo Cheng Real Estate Co., Ltd.*（上海碩誠置業有限公司）, and (ii) 60% of the principal owed by the Target Company to the Vendor at a total consideration of RMB 547,872,000 (the "**Consideration Payment**") subject to the terms and condition thereunder (the "**Major Disposal**"). The consideration will be settled by cash.

As advised by the management of the Company, in view of the Company's further updated unaudited financial position that (i) as at 30 September 2015, the cash and bank balance of the Group was approximately RMB2,337 million, of which part of the balance was restricted deposit and part of the balance was under close monitoring by the banks and could not be freely utilized by the Group (the "**Non-free Cash Balance**") which aggregated to approximately RMB1,965 million, so only approximately RMB372 million could be freely used by the Group; (ii) assuming completion of the Major Disposal had taken place on 30 September 2015, as at 30 September 2015, the cash and bank balance of the Group would be approximately RMB1,700 million (before accounting for the Consideration Payment), of which the Non-free Cash Balance would be approximately RMB1,330 million, the free cash and bank balances would therefore be approximately RMB918 million (after accounting for the Consideration Payment); (iii) for the three months ending 31 December 2015, the Group is required to repay the principal amount and interest of the Group's outstanding loans in an aggregate amount of RMB2,895 million (or approximately RMB2,365 million after adjustment of the effect from the Major Disposal); and (iv) as advised by the management of the Company, some of the loans such as construction loans are by nature not extendable as stipulated in the terms of the loan documents while for most of other loans, based on preliminary discussions with the lending banks, banks were reluctant to extend the term of the loans unless certain situations of the Company including, inter alia, deteriorating financial performance and liquidity position of the Group and the Measures (as defined below) have been significantly improved and cleared, the Directors believe that without the Subscription, the Group will be under serious liquidity stress and consequently may lead to default in repayment of the borrowings and breach of contracts/agreements and may possibly result in cross default in other borrowings.

It was disclosed in the announcement of the Company dated 9 June 2015 that the Changzhou City People's Procuratorate of the PRC has required Mr. Shi to stay under custody at a designated residence (the "**Measures**"). As at the Latest Practicable Date, save for the information disclosed in the said announcement, the Company is not aware of any update nor have access to new information regarding the Measures. We are given to understand that the Measures is expected to adversely impact on the financing capabilities and liquidity of the Group as (i) Mr. Shi had been actively involving in certain applications for new financing and refinancing for the business operation and development of the Group; and (ii) the aforesaid new financing and refinancing may be subject to the execution of the guarantee to be provided by Mr. Shi. As at the Latest Practicable Date, due to uncertainty of the Measures, certain new financing and refinancing were put on hold. In particular, two major development projects of the Group, namely the urban renewal and construction project located in Shanghai covering a land area of approximately 37,000 square meters at an estimated capital requirement of approximately RMB5,000 million and the residence construction project located in Shenyang covering a land area of approximately 68,000 square meters at an estimated capital requirement of approximately RMB1,800 million, have been slowed down as a result of the Measures and the absence of a strategic investor with strong business and financial background.

As further advised by the management of the Company, based on preliminary discussion with certain banks, they have indicated that without an introduction of a new strategic investor with sound financial background, the relevant financing and refinancing would not further proceed.

In view of the significant cash requirements for repayment of borrowings and its capital expenditures, the Company considers that China Minsheng Jiaye's investment will provide an immediate source of funds to enhance its cash flow in the short term. While China Minsheng Jiaye has provided short-term loans (the "**Short Term Loan**") in an aggregate amount of RMB560 million to the Group during the past three weeks before the Subscription Agreement was concluded and entered into, it is estimated that upon the Subscription Completion, the Company will receive net proceeds amounting to HK$1,486 million from the Subscription. With the strong financial background of China Minsheng Jiaye as the Company's controlling shareholder upon the Subscription Completion, the Subscription is expected to also enable the Group to access to broader financing options and borrow at lower interest costs in the medium to long term. As advised by the management of the Company, without the provision of the Short Term Loan, the Group would fail to repay at maturity a loan of RMB430 million owed by a subsidiary of the Company, putting the Group at high liquidity and operational risk.

Upon the Subscription Completion, China Minsheng Jiaye will also provide a back-to-back indemnity (the "**Back to Back Indemnity**") in favour of the Company, with a view to remedying the undesirable financial implications of the Group's exposure to the contingent liabilities of the Third Party Indebtedness (as disclosed in the announcement of the Company dated 24 September 2015). The aggregate outstanding principal amount of the Third Party Indebtedness as at 31 August 2015 was approximately RMB2,382.7 million and the Group may be required to assume all repayment obligations in the event of payment default by third parties on the Third Party Indebtedness. The Back to Back Indemnity will be given by China Minsheng Jiaye only upon the Subscription Completion as China Minsheng Jiaye will become the controlling shareholder of the Company and it is intended that the Back to Back Indemnity will benefit the Company and all Shareholders as a whole.

Furthermore, the Company considers that the Subscription by China Minsheng Jiaye will bring about significant strategic benefits to the Group due to China Minsheng Jiaye's established operations and experience in the real estate sector in the PRC.

2.2 Use of Proceeds from the Subscription

As stated in the Letter from the Board, the estimated net proceeds from the issue of the Subscription Shares to the Subscribers, after deduction of expenses, are approximately HK$1,486 million. Based on the repayment schedule of existing indebtedness and the existing level of cash reserve of the Group, approximately 70% of the net proceeds from the issue of the Subscription is intended to be used to repay bank loans of the Group. The remaining approximately 30% will be used for general working capital and for the future development of the Group's real estate projects.

On the assumptions that after adjusting the effect from the Major Disposal, the Group would have (i) free cash and bank balances of approximately RMB918 million as at 30 September 2015; and (ii) outstanding loans in an aggregate amount (principal and interest) of approximately RMB2,365 million (after adjustment of the effect from the Major Disposal) falling due during the three months ending 31 December 2015, out of which the Short Term Loan in the amount of RMB560 million due in December 2015 could be extended by China Minsheng Jiaye after the Subscription Completion, the shortfall would be approximately RMB887 million which could be covered by the 70% of the net proceeds allocated. Accordingly, we consider this allocation is reasonable.

Further, (i) as further capital is required for the business development of the Group, in particular, two major development projects of the Group, namely the urban renewal and construction project located in Shanghai covering a land area of approximately 37,000 square meters at an estimated capital requirement of approximately RMB5,000 million and the residence construction project located in Shenyang covering a land area of approximately 68,000 square meters at an estimated capital requirement of approximately RMB1,800 million, (ii) according to the 2014 Annual Report, the annual selling and marketing expenses and the administrative expenses for the past two years were approximately HK$340 million, we consider that the allocation of 30% of the net proceeds from the Subscription, amounting to approximately HK$446 million, for general working capital of the Group's daily operation and its projects, including the pre-construction expenses, such as surveying and design fees, for the said two projects, is reasonable.

As advised by the Directors, as substantial capital is needed for the commencement of construction and development of the said two projects, the Group is in the process of negotiating with banks for further funding.

2.3 Financing alternatives to the Group

As stated in the Letter from the Board, the Company has considered other fund raising methods such as rights issue or open offer, and debt financing and considered that the Subscription is preferable for the following reasons:

(a) it would be difficult for financial institutions to provide facility up to such a substantial amount to the Group as proposed under the Subscription and debt financing would inevitably increase the financial costs of the Group; and

As further discussed with the Directors, with respect to the debt financing and/or bank borrowings, it may be subject to lengthy due diligence and negotiations, in particular given that the Group recorded consecutive losses attributable to the owner of parent for the year ended 31 December 2014 and for the six month ended 30 June 2015 and the weak financial position of the Group. Further, given the liquidity stress faced by the Group, debt financing would incur interest expenses and impose additional financial burden to the Group's future cashflow. In addition, as majority of the Group's assets have been pledged, the Group may not have sufficient collaterals that could be offered to banks for obtaining financing on terms and conditions favorable to the Company.

(b) a pre-emptive issue such as rights issue or open offer would not be able to bring in strategic investors as Shareholders, particularly China Minsheng Jiaye with a strong background and professional expertise.

As further discussed with the Directors, with respect to a pre-emptive issue such as rights issue and open offer, given that the loss making performance, the weak financial position and the uncertainty and possible adverse effect to be imposed by the Measures and the Financing Transactions, the Group considered that it would be challenging to find a underwriter to conduct a pre-emptive issue at favorable terms to the Group and to raise such substantial amounts. In addition, as compared to the Subscription, a pre-emptive issue would require a relatively longer time to carry out which is considered to be unfavorable to the Company given the urgent need of capital by the Group.

As further advised by the Directors, save for the Subscribers, the Company was unable to secure other potential investors which could proceed to the entering into of legally binding agreement at the relevant time.

In light of the above, we concur with the Directors that there are no other best available financing alternatives for the Group to consider other than the Subscription at the relevant time. In addition, taking into consideration that the Subscription (i) provides a good opportunity to raise substantial amounts of funds for the Group and (ii) will allow the Subscriber to become the controlling Shareholders and therefore the Group can take advantages of the Subscriber's sound financial and business background for future financing, business development and/or investment opportunities, we therefore consider that the Subscription is in the interests of the Company and the Shareholders as a whole.

3. Principal Terms of the Subscription Agreement

3.1 The Subscription

On 9 October 2015, the Company, the Subscribers (including China Minsheng Jiaye and the Investors) and SREI entered into the Subscription Agreement, pursuant to which the Company conditionally agreed to issue, and the Subscribers conditionally agreed to subscribe for, an aggregate of 14,900,000,000 Subscription Shares at the Subscription Price of HK$0.10 per Subscription Share for a total cash consideration of HK$1,490,000,000.

Details of the amount of subscription monies, the number of Subscription Shares and the percentage shareholding (on the basis of the issued share capital of the Company as enlarged by the Subscription Shares) of each of the Subscribers are set out in the sub-section headed "The Subscription" under the section headed "The Subscription Agreement" in the Letter from the Board.

The distribution of the Subscription Shares among the Subscribers was a result of arm's length negotiations between the Company and the Subscribers with reference to a number of considerations, including: (1) capital needs of the Company; (2) the public float requirement under the Listing Rules; (3) investment objectives of each of the Subscribers; and (4) China Minsheng Jiaye becoming the single largest shareholder of the Company holding more than 50% of the enlarged issued share capital upon the Subscription Completion, an intention which has been stated in the memorandum of understanding entered into between the Company, China Minsheng Jiaye and SREI on 12 September 2015.

We noted that upon Subscription Completion, the shareholding of China Minsheng Jiaye and the public shareholders in the Company will be approximately 60.78% and 25.11% respectively, as disclosed in the section headed "5. Potential Dilution Effect on Shareholding" below, and as a result, the Company will be able to meet the public float as required under the Listing Rules. In addition, in view of the limited free cash and balance of the Group as at 30 September 2015 and the significant cash requirements required by the Group to meet repayment of borrowings and its capital expenditures as discussed in section headed "2.1 Reasons for and benefit of the Subscription" above, the Group has immediate capital needs.

The 14,900,000,000 Subscription Shares represent: (i) approximately 263.03% of the existing issued share capital of the Company; and (ii) approximately 72.45% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

3.2 The Subscription Price

The Subscription Price for the Subscription of HK$0.10 per Subscription Share represents:

(a) a discount of approximately 72.60% to the closing price of HK$0.365 per Share on the Latest Practicable Date;

(b) a discount of approximately 74.36% to the closing price of HK$0.390 per Share on the Last Trading Day;

(c) a discount of approximately 73.33% to the average closing price of HK$0.375 per Share for the last 5 Trading Days immediately prior to and including the Last Trading Day;

(d) a discount of approximately 73.54% to the average closing price of HK$0.378 per Share for the last 10 Trading Days immediately prior to and including the Last Trading Day;

(e) a discount of approximately 93.73% to the NAV of approximately HK$1.595 per Share as at 31 December 2014, based on the Annual Report of the Company for the year ended 31 December 2014; and

(f) a discount of approximately 93.55% to the NAV of approximately HK$1.550 per Share as at 30 June 2015, based on the Interim Report of the Company for the six months ended 30 June 2015.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscribers with reference to, and was agreed at a discount of the then prevailing and historical trading prices of the Shares and the NAV per Share after taking into account, certain factors including:

(i) the weak business performance of the Group, in particular the continuing losses attributable to owners of the parent for the six months ended 30 June 2015 and the year ended 31 December 2014, and the potential strategic benefits to brought by China Minsheng Jiaye's Subscription for a controlling interest in the Company given China Minsheng Jiaye's strong business background, industry expertise and financing capability;

(ii) the significant indebtedness and funding requirements of the Group as at 30 September 2015 and the Short Term Loan in the amount of RMB560 million provided by China Minsheng Jiaye to the Group to satisfy the Group's short term indebtedness repayment obligations; and

(iii) the contingent liabilities of the Group in respect of the Third Party Indebtedness and the back-to-back indemnity to be provided by China Minsheng Jiaye which is intended to remedy the undesirable financial implications of the Group's exposure to such contingent liabilities.

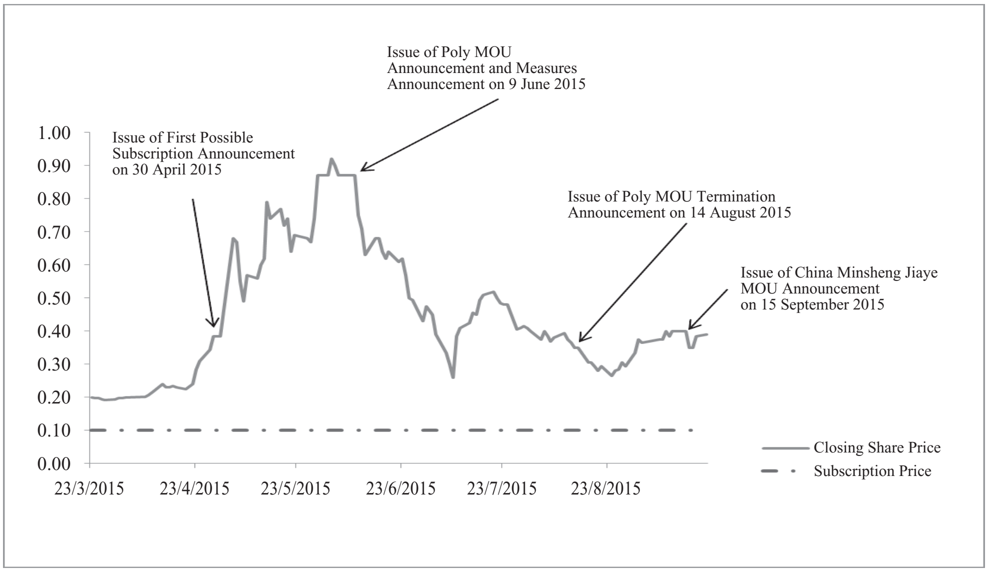
For a more detailed discussion of the above factors, please refer to the sub-sections headed "Other Information – Intention in relation to the Group", "Other Information – Reasons for and Benefits of the Subscription" and "Other Arrangement" in the Letter from the Board.

In order to assess the fairness and reasonableness of the Subscription Price, we have conducted the following analyses:–

3.2.1 Comparison with Historical Shares Price Performance

We have reviewed the daily closing Share price for the period from 22 March 2015 to 21 September 2015 (the "**Review Period**"), being the Last Trading Day and consider that such six months period would be sufficient to smooth out the effects of any short term fluctuations in the stock market.

The chart below illustrates the daily closing Share price for the period from 22 March 2015 to 21 September 2015, being the Last Trading Day:–



Source: the website of the Stock Exchange

During the period from 22 March 2015 to 28 April 2015, the Shares closed between HK$0.192 and HK$0.385 with an average of approximately HK$0.23.

On 28 April 2015, the trading in Shares was halted. Subsequently, the Company issued an announcement dated 30 April 2015 stating the Company was in negotiation with several strategic investors concerning possible investment in the Company by way of subscription of new shares (the "**First Possible Subscription Announcement**"). The trading of Shares was then resumed on 4 May 2015. The closing Share price surged to HK$0.68 on 4 May 2015, representing an increase of approximately 76.62% as compared to the closing Share price of HK$0.385 on 28 April 2015. For the period between 4 May 2015 and 4 June 2015, the closing Share prices were at a peak range between HK$0.49 and HK$0.92.

On 5 June 2015, the trading in Shares was suspended. Subsequently, the Company issued an announcement dated 9 June 2015 (the "**Poly MOU Announcement**") in relation to, among others a non-binding memorandum of understanding (the "**Poly MOU**") was entered into between the Company, SREI and Poly Real Estate Group Co.,Ltd. ("**Poly Real Estate**"), under which Poly Real Estate expressed an interest to subscribe for (or to procure its wholly-owned subsidiary to subscribe for) the Shares to be allotted and issued by the Company for subscription at HK$0.25 per Share involving possible application for whitewash waiver. On the even date, the Company also issued an announcement (the "**Measures Announcement**") in relation to, among other, the Measures. The trading in Shares was then resumed on 10 June 2015. The closing Share price was plunged to HK$0.75 on 10 June 2015 and the closing Share prices were between HK$0.26 and HK$0.75 for the period from 10 June 2015 to 13 August 2015.

On 14 August 2015, the trading in Shares was halted. Subsequently, the Company issued an announcement dated 14 August 2015 (the "**Poly MOU Termination Announcement**") in relation to, among others, a termination agreement was entered into between the Company, SREI and Poly Real Estate to terminate the Poly MOU. The trading in Shares was then resumed on 17 August 2015 and the closing Share prices were between HK$0.265 and HK$0.40 for the period from 17 August 2015 to 11 September 2015.

On 14 September 2015, the trading in Shares was halted. Subsequently, the Company issued an announcement dated 15 September 2015 (the "**China Minsheng Jiaye MOU Announcement**") in relation to, among others, a memorandum of understanding was entered into between the Company, SREI and China Minsheng Jiaye, under which China Minsheng Jiaye expressed an interest to, directly or indirectly through a wholly-owned subsidiary, subscribe for the Shares to be allotted and issued by the Company for subscription at HK$0.10 per Share. The trading in Shares was then resumed on 16 September 2015 and the closing Share prices were between HK$0.35 and HK$0.39 for the period from 16 September 2015 to 21 September 2015 prior to trading suspension on 22 September 2015.

On 4 November 2015, the trading in Shares was resumed.

Having considered the above, we consider that the Subscription Price when taken on its own is not fair and reasonable as the Subscription Price is below the closing Share prices during the Review Period at all times.

3.2.2 Comparison with Net Asset Value of the Group

As stated in the Letter from the Board, the Subscription Price of HK$0.10 represents approximately 93.5% to the NAV of approximately HK$1.550 per Share as at 30 June 2015, based on the Interim Report of the Company for the six months ended 30 June 2015.

We consider that the Subscription Price which was at a significant deep discount to the NAV per Share when taken on its own is not fair and reasonable.

For the references of the Independent Shareholders, we have discussed with the management of the Company and were given to understand that:–

(i) as at 30 September 2015, the cash and bank balance of the Group was approximately RMB2,337 million, of which approximately RMB1,965 million is Non-free Cash Balance, so only approximately RMB372 million can be freely used by the Group (before adjusting for the effect of the Major Disposal);

(ii) for the three months ending 31 December 2015, the Group is required to repay the principal amount and interest of the Group's outstanding loans in an aggregate amount of RMB2,895 million (before adjusting for the effect of the Major Disposal). Based on the unaudited preliminary figures above, the Company is under serious liquidity shortfall and is facing substantially high insolvency risk;

(iii) without the provision of the Short Term Loan of RMB560 million granted by China Minsheng Jiaye to meet the repayment of principal and interest of certain borrowings of the Group, the Group could have defaulted on such payments leading to acceleration of immediate repayment obligation of the Group for the said total borrowings amounting to an aggregate of approximately RMB9,300 million;

(iv) should the Group fail to obtain external financing, it would be required to generate internally through, without limitation to, liquidating the assets of the Group. However, there is no guarantee that the assets of the Group could be sold at market price, or at all, or within a short period so as to meet the financial needs of the Group promptly;

(v) without an introduction of a new strategic investor with sound financial background, the Group would have less bargaining power in securing future financing and re-financing which in turn would have negative impact on the business operation and development of the Group; and

(vi) upon the Subscription Completion, China Minsheng Jiaye is expected to introduce five strategic initiatives to support or grow the business of the Company, including injecting high-quality real estate projects into the Company and improving the financing structure of the Company by leveraging on, among others, China Minsheng Jiaye's financial capabilities and high credit rating to seek various financial channels at a lower cost.

Therefore, the Directors considered that the NAV per Share by itself did not and should not form a substantial part of consideration in judging the terms of the Subscription under the current severe situation and position as discussed above faced by the Group.

We have discussed with the Directors regarding the need to prepare any updated valuation on the assets of the Group. The Directors hold the view that no valuation on the assets of the Group might be required as even with an updated valuation with further increment in valuation, the Subscription Price will still be at a significant deep discount to the NAV per Share. We concur with the view of the Directors a valuation report will not provide material information that would result in an radical change in our view that the Subscription Price when taken on its own is not fair and reasonable since it was at a significant deep discount to the NAV per Share as at 30 June 2015.

3.2.3 Assessment on the Subscription Price after considering the other arrangements

Reference is made to the announcement of the Company on 24 September 2015 (the "**Financing Transaction Announcement**") and 3 November 2015 regarding certain Financing Transactions (as defined therein). In connection with those Financing Transactions, the Company and/or certain of its subsidiaries were found to have executed certain guarantee and a mortgage in favour of banks for the Third Party Indebtedness of certain connected persons of Mr. Shi Jian. The aggregate outstanding principal amount of the Third Party Indebtedness as at 31 August 2015 was approximately RMB2,382.7 million.

Based on the preliminary investigation of the Company, taking into account the Company's enquiries with the borrowers of the Third Party Indebtedness and the lenders, (a) the total outstanding balance of the loans secured by the Financing Transactions was RMB2,382,740,000 (equivalent to approximately HK$2,906,942,800) as of 31 August 2015; (b) the Group does not have any immediate risk of monetary damages as there has been no default in repayment of the borrowers on any of the loans; (c) all the loans secured by the Financing Transactions (save and except the Fifth Loan with an outstanding balance of RMB30,000,000 (equivalent to approximately HK$36,600,000) as of 31 August 2015) were also secured by mortgages or charges over properties, land or equity provided by the borrowers of the Third Party Indebtedness (collectively, the "**Security by Connected Persons**"), with market value of the Security by Connected Persons being above the current outstanding balance of the loans; and (d) the Company was informed by the borrowers that they intend to make, and are capable of making, punctual repayments on the loans in accordance with the repayment schedules. On that basis, the Board considers that the Financing Transactions have not brought about any immediate risks of material adverse impact on the financial position of the Group. However, the Company wishes to emphasize that the above findings and analysis are of a preliminary nature.

Due to the Financing Transactions, the Group may be required to assume all repayment obligations in respect of the Third Party Indebtedness in the event of payment default on the Third Party Indebtedness. In order to remedy the undesirable financial implications of the Group's exposure to the contingent liabilities of the Third Party Indebtedness, China Minsheng Jiaye will, upon the Subscription Completion, provide the Back to Back Indemnity in favour of the Company to indemnify and hold harmless the Group from and against any losses and costs that it has incurred as a result of the performance of the Financing Transactions by the Company or any of its subsidiaries, on the term that the Company shall account to China Minsheng Jiaye any proceeds, compensation or money that it may have received or recovered from any persons in relation to the Third Party Indebtedness as a result of the enforcement of the existing collateral provided to the lending banks by the borrowers of the Third Party Indebtedness or otherwise.

If it was later discovered that the Company has provided undisclosed guarantee(s) for other third party indebtedness:

(a) China Minsheng Jiaye will not be required to provide further back-to-back indemnity in favour of the Company, but it may consider doing so at that time depending on, among other factors, the circumstances and amount of the contingent liabilities involved; and

(b) it will constitute a breach of representation under the Subscription Agreement and as a result China Minsheng Jiaye will have the right to decide not to proceed with the Subscription Completion.

To further mitigate the potential loss arising from the Financing Transactions, on 3 November 2015, SREI and Madam Si Xiao Dong entered into an irrevocable and unconditional undertaking in favour of the Company (on its own and its subsidiaries' behalf) to indemnify and hold harmless the Group for any losses arising from its payment obligations arising from the Financing Transactions (the "**SREI Indemnities**").

The Directors are of the view that the SREI Indemnities will, together with the Back to Back Indemnity, be able to relieve the Group of the undesirable risk exposure, contingent liabilities and uncertainties caused by the Financing Transactions.

As disclosed in the Financing Transactions Announcement, the Board has established an investigation committee (the "**Investigation Committee**"), comprising all the independent non-executive Directors as members, to further investigate the Financing Transactions and to review the internal control system of the Group.

Please refer to the section headed "Other Arrangement" in the Letter from the Board for more details on (i) the work that has been performed by the Company to identify unreported transactions, if any, which might have been executed by Mr. Shi Jian for and on behalf of the Group prior to his custody at a designated residence as required by the Changzhou City People's Procuratorate of the PRC as announced by the Company on 9 June 2015 and his suspension of duties on 21 September 2015; (ii) the view of the Investigation Committee; and (iii) the procedures resolved by the Investigation Committee to prevent the occurrence of similar incidents in future.

The Company has carefully considered the existing disclosure of the Company's annual reports, taking into account, in particular, the facts that: (a) there has been no default in repayment of the borrowers on any of the loans; (b) all the loans secured by the Financing Transactions (save and except the Fifth Loan (as defined therein). With an outstanding balance of RMB25,000,000) were also secured by the Security by Connected Persons, with market value of the Security by Connected Persons being above the current outstanding balance of the loans; (c) the Company was informed by the borrowers that they intend to make, and are capable of making, punctual repayments on the loans in accordance with the repayment schedules; (d) subject to completion of the Subscription, China Minsheng Jiaye has agreed to provide the Back to Back Indemnity to fully indemnify and hold harmless the Group for any losses arising from its payment obligations arising from the Financing Transactions; and (e) each of SREI and Madam Si Xiao Dong also provided the SREI Indemnities to indemnify and hold harmless the Group for any losses arising from its payment obligations arising from the Financing Transactions.

After considering the above, in particular the provision of the Back to Back Indemnity and the SREI Indemnities in favour of the Company, the Company is of the view that (a) no provision is required to be made in connection with the provision of guarantees and collaterals under the Financing Transactions; and (b) there is no need to restate the net assets and net profit of the Group as reported in the Company's annual report for 2014 and previous years if all conditions stated in the paragraph above are satisfied.

The Company will closely monitor the development of the matters relating to the Financing Transactions and will make further announcements as and when there is significant development of the matters. So far as the Company is aware, as at the Latest Practicable Date, there is no other inside information that is required to be disclosed.

In view of (i) the assessment on the impact of the Third Party Indebtedness to the Group, including but not limited to the assessment on the market value of the Security by Connected Persons, which is of preliminary nature after reviewing the preliminary valuation on the said security; (ii) the borrowers not being under control of the Group and the risk that the borrowers cannot be procured at all times to make payments under the Third Party Indebtedness; (iii) the limitations that the disposal of the Security by Connected Persons, in particular, the properties and land could be lengthy and there is no guarantee that the said security could be liquidated at the market value; (iv) undue time and cost that may be incurred by the Group should it proceed with any legal action against the borrowers to recover any loss borne by the Group as a result of their failure on repayment of the Third Party Indebtedness and (v) despite the provision of the SREI Indemnities, the right to which the Group is entitled to request China Minsheng Jiaye to meet the repayment obligations in respect of the Third Party Indebtedness, we are of the view that it is commercially justifiable to factor in the Back to Back Indemnity in the amount of up to RMB2,382,740,000 (equivalent to approximately HK$2,906,942,800) for the purpose of assessing the reasonableness and fairness of the overall terms of the Subscription on a balancing basis.

3.3 Subscription Conditions

The Subscription Completion is conditional upon, inter alia, the following Subscription Conditions having been satisfied (or, if applicable, waived):

(a) the Share Capital Increase being approved by the Shareholders, the Subscription, the Specific Mandate and the appointment of directors nominated by China Minsheng Jiaye being approved by the LR Independent Shareholders, and the Subscription and the Whitewash Waiver being approved by the TC Independent Shareholders, in each case by way of poll at the SGM;

(b) the Executive having granted to China Minsheng Jiaye (and parties acting in concert with it) the Whitewash Waiver, and any conditions attaching to the Whitewash Waiver having been satisfied;

(c) the Company having obtained the approval from the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares, and such approval not having been revoked or cancelled prior to Subscription Completion;

(d) China Minsheng Jiaye having completed its due diligence on the Company and being satisfied with its results;

(e) the representations and warranties of the Company and SREI set out in the Subscription Agreement remaining true, accurate, complete and not misleading on Subscription Completion, and the Company and SREI having complied with all of their undertakings (including those in relation to pre-completion undertakings and covenants) under the Subscription Agreement;

(f) from the date of the Subscription Agreement until the Subscription Completion Date, the Shares continuing to be listed and traded on the Stock Exchange (except for suspension of trading in connection with the Subscription Agreement or suspension of trading for not more than five trading days) and no requests having been received from the SFC and/or the Stock Exchange that the listing status of the Shares on the Stock Exchange will be revoked or cancelled as a result of the completion under the Subscription Agreement or any terms thereunder or other matters;

(g) from the date of the Subscription Agreement until the Subscription Completion Date, no person (except a party to the Subscription Agreement) having obtained a binding order from any relevant authorities restricting or prohibiting any party to the Subscription Agreement to complete the transactions contemplated thereunder at any relevant authorities and the Subscription Agreement and the transactions contemplated thereunder comply with applicable laws and regulations;

(h) all relevant government authorities or regulatory authorities or other relevant third parties (including banks and other creditors) having granted to the Company or the Subscribers all necessary consents, approvals, reports and filings (if applicable) in respect of the entry into and performance of the Subscription Agreement;

(i) since the date of the Subscription Agreement, (i) there having been no events, conditions, occurrence or development of a state of circumstances or facts which has had or reasonably could be expected to have a material and adverse change or effect on the business, operations, assets or liabilities, financial conditions or prospects of the Group or any of its subsidiaries (as applicable) and; (ii) there having been no change in the applicable laws in each of the jurisdictions in which the Group has business operations which may lead to material and adverse effect to the Group as a whole;

(j) the Subscribers having received a legal opinion issued by Bermuda counsel on matters of Bermuda law in a form reasonably satisfactory to the Subscribers; and

(k) the Company and its subsidiaries not having defaulted any of its contractual obligations under any agreements, tenancies, mortgages, charges, trust deeds, notes or bonds.

The Subscribers may at any time waive any or all of the Subscription Conditions set out in paragraphs (d) through (k) of the sub-section headed "Subscription Conditions" above. The remaining Subscription Conditions cannot be waived.

If the Subscription Conditions have not been satisfied or waived by the parties on or before the Long Stop Date, the Subscription Agreement will be terminated, but without prejudice to any rights accrued by the parties prior to termination.

As at the Latest Practicable Date, none of the Subscription conditions has been satisfied or waived.

3.4 Event of Default

Each party to the Subscription Agreement has undertaken to make its best efforts to complete the Subscription. Subject to the absence of any material risks in the due diligence review by China Minsheng Jiaye and to its satisfaction with the due diligence results, any failure to perform the foregoing undertaken obligation on the part of any party to the Subscription Agreement will constitute an Event of Default and will result in liability for liquidated damages in the amount of RMB200 million (the "**Default Arrangement**").

The amount of the liquidated damages was determined after arm's length negotiations between the parties, taking into consideration various factors, including: (1) cost of capital in respect of the subscription monies; (2) the size of the Subscription and the Short Term Loan; (3) the risk of default with respect to the Subscription (especially in view of the termination of the Poly MOU); (4) the risk of default with respect to the Short Term Loan; and (5) the determination of the parties to complete the Subscription.

As discussed with the management of the Company, we noted (i) that the Default Arrangement is bilateral on China Minsheng Jiaye and the Company; (ii) the Default Arrangement is designed to facilitate the Subscription; and (iii) the Default Arrangement is found to be a common practice in a typical commercial transaction.

As announced by the Company on 15 September 2015, in view of the capital needs of the Group in the near term, China Minsheng Jiaye intended to provide an interest-bearing short-term loan to the Group. On 16 September 2015, the Company and certain of its subsidiaries entered into the Loan Agreement with China Minsheng Jiaye, whereby (a) a 3 month Short Term Loan in the amount of RMB560 million at an interest rate of 12% per annum was provided by China Minsheng Jiaye to the Group; (b) the obligations of the borrower were secured by the corporate guarantee of the Company and the personal guarantee of Mr. Shi Janson Bing (an executive Director of the Company); and (c) share charges were entered into by certain subsidiaries of the Company by way of collaterals in support of the Short Term Loan.

As discussed with the management of the Company, the said interest rate was determined between the Company and China Minsheng Jiaye with reference to (i) the Group conducted several trust loans in the PRC with annual total cost, covering interest rate and administration charge, ranging from 9% to 16.0% and they were mainly secured by high quality fixed assets; (ii) the Short Term Loan is secured by soft assets, namely equity interest of two subsidiaries of the Company where majority of their assets have already been charged to third party; and (iii) the Group was unable to secure bank financing at the relevant time given, without limitation to, the deteriorating financial performance and liquidity position of the Group and the Measures.

It is agreed that if an Event of Default occurs, the Group shall repay the Short Term Loan (and accrued interest) to China Minsheng Jiaye in full within five days after the occurrence of the Event of Default.

3.5 The Subscription Completion

Pursuant to the Subscription Agreement, the Subscription Completion shall take place on the second Business Day following the notification of the satisfaction or waiver of the Subscription Conditions. It is the intention of the parties to complete the Subscription as soon as practicable in accordance with the terms and conditions of the Subscription Agreement. Subject to the satisfaction or waiver of the Subscription Conditions, the Company currently expects that the Subscription Completion will likely take place no later than 31 December 2015.

3.6 Other terms

The Subscription Shares will, when issued, rank *pari passu* in all respects with the other Shares then in issue, including the rights to all dividends and other distributions declared, made or paid at any time after the date of allotment, free and clear of liens, charges, security interests, encumbrances and third party rights.

In connection with the Subscription, the Company and SREI have given certain representations and warranties to the Subscribers in respect of, among other things, the underlying business and operations of the Group, ownership of the properties owned by the Group, compliance with applicable laws and litigation against the Group.

At the SGM, the Company will seek the Specific Mandate from the LR Independent Shareholders in order to issue the Subscription Shares.

4. Financial Effect of the Subscription

It should be noted that the below analyses are for illustrative purpose only and do not purport to represent how the financial position or results of the Group will be upon Completion and the issue of the Subscription Shares pursuant to the Subscription:

4.1 Working capital

According to the 2015 Interim Report, as at 30 June 2015, the Group had cash and bank balances of approximately HK$2,240 million, a total current assets of approximately HK$29,051 million, and a total current liabilities of approximately HK$15,855 million. As at 30 June 2015, the current ratio (calculated as total current assets divided by total current liabilities) of the Group was at approximately 1.83 times and the net current assets of the Group was at approximately HK$13,196 million. Given that the Subscription will bring in new capital (after expenses) of approximately HK$1,486 million upon the Subscription Completion, it is expected that both the cash position and the current asset position of the Group will be enhanced.

4.2 Net asset value

As advised by the Directors, the Subscription is expected to result in (i) an increase in cash by the amount of the net proceeds received under the Subscription; and (ii) an increase by the relevant amount in the issued capital of the Company.

As at 30 June 2015, the net asset value attributable to owners of the parent (the "**NAV**") was at approximately HK$8,778 million and the Company has 5,664,713,722 issued Shares, resulting in the NAV per Share of approximately HK$1.55.

Upon issuance of 14,900,000,000 Subscription Shares and receipt of an aggregate net proceeds of HK$1,486 million under the Subscription, the NAV would be at approximately HK$10,264 million and the Company would have 20,564,713,722 issued Shares, resulting in the NAV per Share of approximately HK$0.50. As illustrated, it is expected that there would be a dilutive effect on the NAV per Share of approximately HK$1.05 per Share or 67.74% on a comparison basis.

4.3 Earnings

The management of the Company has confirmed that the Subscription would not have material adverse effect to the earnings of the Group immediately upon Subscription Completion.

As advised by the Directors, on the basis that the Subscription would not have material effect to the earnings of Group, it is expected that the earnings per share of the Group would be lowered as a result of the issuance of 14,900,000,000 Subscription Shares.

4.4 Gearing ratio

As at 30 June 2015, the gearing ratio of the Group, being the Group's net borrowings (total borrowings minus cash and bank balance) to total capital (total equity plus net borrowings), was 65%. As advised by the management of the Company, it is expected that upon the Subscription Completion, the Group's total equity will be increased by the amount of net proceeds from the Subscription while the Group's total liabilities will not be affected. Accordingly, it is expected that the gearing ratio of the Group would be improved upon the Subscription Completion.

5. Potential Dilution Effect on Shareholding

The table below sets out the shareholding structure of the Company: (a) as at the Latest Practicable Date; and (b) immediately after the Subscription Completion:

	As at the Latest Practicable Date		Immediately after the Subscription Completion	
	No. of Shares	*%*	*No. of Shares*	*%*
SREI	2,889,659,128	51.01	2,889,659,128	14.05
Directors				
Mr. Shi Jian & Madam Si Xiao Dong *(Note 1)*	13,009,315	0.23	13,009,315	0.06
Mr. Zhuo Fu Min *(Note 2)*	160,000	0.00	160,000	0.00
China Minsheng Jiaye	–	–	12,500,000,000	60.78
Public shareholders				
Investor A	–	–	700,000,000	3.40
Investor B	–	–	500,000,000	2.43
Investor C	–	–	500,000,000	2.43
Investor D	–	–	500,000,000	2.43
Investor E	–	–	200,000,000	0.98
Existing public shareholders	2,761,885,279	48.76	2,761,885,279	13.44
Public sub-total	*2,761,885,279*	*48.76*	*5,161,885,279*	*25.11*
Total	**5,664,713,722**	**100.00**	**20,564,713,722**	**100.00**

Notes:

1. Mr. Shi Jian is a director of the Company and holds 13,006,991 Shares. Madam Si Xiao Dong is Mr. Shi Jian's spouse and holds 2,324 Shares.

2. Mr. Zhuo Fumin is a director of the Company. His spouse, Madam He Pei Pei, holds 160,000 Shares.

As illustrated above, the shareholding of the existing public shareholders would be reduced from approximately 48.76% as at the Latest Practicable Date to 13.44% immediately after the Subscription Completion, representing a decrease of 35.32%.

There will be substantial dilution to the shareholding of the existing public shareholders as a result of the Subscription and we consider that the dilution effect to the shareholding interest of the existing public Shareholders as a result of the Subscription is not fair and reasonable given the deep discount of the Subscription Price to the NAV per Share as at 30 June 2015 and the effect of the Subscription on the net asset value as discussed above.

6. The Whitewash Waiver

China Minsheng Jiaye and parties acting in concert with them do not (as at the Latest Practicable Date) own, control or direct any Shares or convertible securities, warrants or options (or outstanding derivatives) in respect of Shares.

Upon the Subscription Completion, China Minsheng Jiaye and parties acting in concert with them will hold 12,500,000,000 Shares, representing approximately 60.78% of the voting rights of the Company as enlarged by the issue of the Subscription Shares. As a result, China Minsheng Jiaye and parties acting in concert with them will be obliged to make a mandatory general offer for all the issued Shares (other than those already owned or agreed to be acquired by China Minsheng Jiaye and parties acting in concert with them) pursuant to Rule 26.1 of the Takeovers Code.

China Minsheng Jiaye has made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code which, if granted, will be subject to, among other things, approval by the TC Independent Shareholders in respect of the Subscription and the Whitewash Waiver at the SGM by way of poll. Shareholders should note that the granting by the Executive of the Whitewash Waiver and the approval of the TC Independent Shareholders are part of the Subscription Conditions and cannot be waived. Therefore, unless the Whitewash Waiver is granted, the Subscription will not proceed.

Shareholders should also note that if the Whitewash Waiver is approved by the TC Independent Shareholders, the shareholding of China Minsheng Jiaye in the Company will exceed 50% upon the Subscription Completion. China Minsheng Jiaye may further increase its shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

Having taken into consideration, among others,

(i) the Group recorded consecutive losses attributable to the owner of the parent for the year ended 31 December 2014 and for the six months ended 30 June 2015 as disclosed in the sub-section headed "1.1 Information on the Group" of this letter above;

(ii) the potential benefit to be derived from the introduction of strategic initiatives by China Minsheng Jiaye, who is equipped with strong business background and industry expertise on the PRC property market, being the principal business of the Group, to support or grow the business of the Company as disclosed in the sub-section headed "1.3 Intention of China Minsheng Jiaye in relation to the Group" of this letter above;

(iii) the reasons and benefits of the Subscription to the Company as disclosed in the sub-section headed "2.1 Reasons for and Benefits of the Subscription" of this letter above, including but not limited to the urgent need of new capital by the

Group to meet its short term cash flow requirements and the positive impact on the financing and refinancing activities of the Group from introducing China Minsheng Jiaye as a strategic investor; and

(iv) the provision of the Back to Back Indemnity will benefit the Company from eliminating the undesirable exposure to the contingent liabilities of the Third Party Indebtedness,

we are of the view that the Whitewash Waiver, which is a prerequisite for Subscription Completion, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Subscription Completion.

RECOMMENDATION

Having considered that:–

(i) the Subscription Price is below the closing Share prices during the Review Period at all time, details of which are disclosed in the sub-section headed "3.2.1 Comparison with Historical Shares Price Performance";

(ii) the Subscription Price was at was at a significant deep discount to the NAV per Share as at 30 June 2015 as details of which are disclosed in the sub-section headed "3.2.2 Comparison with Net Asset Value of the Group",

we consider that the Subscription Price when taken on its own is not fair and reasonable.

However, having considered that:–

(i) upon the Subscription Completion, China Minsheng Jiaye is expected to introduce five strategic initiatives to support or grow the business of the Company, including injecting high-quality real estate projects into the Company and improving the financing structure of the Company by leveraging on, among others, China Minsheng Jiaye's financial capabilities and high credit rating to seek various financial channels at a lower cost, details of which are disclosed in the sub-section headed "1.3 Intention of China Minsheng Jiaye in relation to the Group;

(ii) on the assumptions that after adjusting the effect from the Major Disposal, the Group would have (i) free cash and bank balances of approximately RMB918 million as at 30 September 2015; and (ii) outstanding loans (principal plus interest) in an aggregate amount of RMB2,365 million falling due during the three months ending 31 December 2015, out of which the Short Term Loan in the amount of RMB560 million due in December 2015 could be extended by China Minsheng Jiaye after the Subscription Completion, the shortfall would be approximately RMB887 million which could be covered by the 70% of the net proceed allocated, details of which are disclosed in the sub-section headed "2.2 Use of Proceeds from the Subscription;

(iii) the Company has considered other fund raising methods, but there were no other best available financing alternatives for the Group to consider other than the Subscription at the relevant time, details of which are disclosed in the sub-section headed "2.3 Financing alternatives to the Group;

(iv) save for the Subscribers, the Company was unable to secure other potential investors which could proceed to the entering into of legally binding agreement at the relevant time.

(v) the Back to Back Indemnity to be provided by China Minsheng Jiaye will benefit the Company from eliminating the undesirable exposure to the contingent liabilities of the Third Party Indebtedness;

(vi) without the provision of the Short Term Loan of RMB560 million granted by China Minsheng Jiaye to meet the repayment of principal and interest of certain borrowings of the Group, the Group could have defaulted on such payments leading to acceleration of immediate repayment obligation of the Group for the said borrowings amounting to an aggregate of approximately RMB9,300 million;

(vii) Should the Group fail to obtain external financing, it would be required to generate internally through, without limitation to, liquidating the assets of the Group. However, there is no guarantee that the assets of the Group could be sold at market price, or at all, or within a short period so as to meet the financial needs of the Group promptly; and

(viii) without an introduction of a new strategic investor with sound financial background, such as China Minsheng Jiaye, the Group would have less bargaining power in securing future financing and re-financing which in turn would have negative impact on the business operation and development of the Group,

we consider that, despite the Subscription Price when taken on its own is not fair and reasonable, on balance, the terms of the Subscription as a whole and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and the Subscription and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole given that without the Subscription, the Group would fail to duly repay outstanding loans in an aggregate amount of RMB2,365 million (including interest) which are due for payment during the three months ending 31 December 2015 (after adjusting the effect from the Major Disposal) and consequently may possibly result in cross default in other borrowings, putting the Group at a significantly high insolvency risk.

Considering the potential risks facing by the Company, we therefore recommend the IBC to advise the Independent Shareholders to vote in favour of the relevant resolutions to approve the Subscription and the Whitewash Waiver at the SGM.

Yours faithfully,
For and on behalf of
Amasse Capital Limited

May Tsang
Director

Stephen Lau
Associate Director

1. THREE-YEAR FINANCIAL SUMMARY

The following is a summary of the audited consolidated financial information of the Group for the years ended 31 December 2012, 2013 and 2014 as extracted from the published annual financial statements of the Group for the relevant years and the unaudited consolidated financial information of the Group for the six months ended 30 June 2015 as extracted from the published interim financial statements of the Group for the six months ended 30 June 2015.

The auditor's reports issued by Ernst & Young in respect of the Group's audited consolidated financial statements for each of the three financial years ended 31 December 2012, 2013 and 2014 did not contain any qualification and there were no extraordinary items or items which are exceptional because of size, nature or incidence for each of the three financial years ended 31 December 2012, 2013 and 2014.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

	For the six months ended 30 June	**For the year ended 31 December**		
	2015	**2014**	**2013**	**2012**
	Unaudited	Audited	Audited	Audited
Revenue	535,568	1,439,956	3,344,278	3,343,016
Cost of sales	(440,909)	(1,133,304)	(2,387,850)	(2,442,884)
Gross profit	94,659	306,652	956,428	900,132
Other gains – net	5,659	964,797	148,395	271,675
Selling and marketing expenses	(108,285)	(77,148)	(78,397)	(79,238)
Administrative expenses	(110,575)	(270,308)	(266,871)	(236,120)
Operating profit	(118,542)	923,993	759,555	856,449
Finance income	27,394	99,204	87,455	35,779
Finance costs	(232,875)	(456,753)	(352,117)	(298,677)
Finance costs – net	(205,481)	(357,549)	(264,662)	(262,898)
Share of profits of associates	88	1,431	4,846	7,084
(Loss)/Profit before tax	(323,935)	567,875	499,739	600,635
Income tax expense	4,941	(423,600)	(294,609)	(188,231)
(Loss)/Profit for the year from continuing operation	(318,994)	144,275	205,130	412,404

	For the six months ended 30 June 2015	For the year ended 31 December 2014	2013	2012
	Unaudited	Audited	Audited	Audited
DISCONTINUED OPERATION				
Loss for the year from discontinued operation	–	–	–	(104,634)
Other comprehensive income				
Item not to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of financial statements into presentation currency	2,885	(30,908)	295,109	(35,184)
Other comprehensive income for the year, net of tax	2,885	(30,908)	295,109	(35,184)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(316,109)	113,367	500,239	272,586
(Loss)/profit attributable to:				
Owners of the parent	(261,646)	(105,954)	200,171	367,307
Non-controlling interests	(57,348)	250,229	4,959	(59,537)
	(318,994)	144,275	205,130	307,770
Total comprehensive income attributable to:				
Owners of the parent	(258,839)	(137,611)	480,798	349,018
Non-controlling interests	(57,270)	250,978	19,441	(76,432)
	(316,109)	113,367	500,239	272,586

	For the six months ended 30 June	For the year ended 31 December		
	2015	**2014**	**2013**	**2012**
	Unaudited	Audited	Audited	Audited
(Loss)/earnings per share attributable to ordinary equity holders of the parent				
– Basic				
– For profit for the year	HK$(4.62) cents	HK$(1.87) cents	HK$3.53 cents	HK$6.85 cents
– For profit from continuing operations	HK$(4.62) cents	HK$(1.87) cents	HK$3.53 cents	HK$8.07 cents
– Diluted				
– For profit for the year	HK$(4.62) cents	HK$(1.87) cents	HK$3.53 cents	HK$6.85 cents
– for profit from continuing operations	HK$(4.62) cents	HK$(1.87) cents	HK$3.53 cents	HK$8.07 cents
Assets and Liabilities				
Total assets	38,600,774	27,737,713	24,100,293	29,355,093
Total liabilities	29,313,348	27,723,348	22,486,834	19,592,759

Details of the dividends paid and proposed are disclosed in Note 14 to the financial statements.

The accompanying notes are an integral part of these consolidated financial statements.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

2.1 The Group

Set out below is the audited consolidated financial statements of the Group for the year ended 31 December 2014, together with the notes thereto, which have been extracted from the annual report of the Group for the year ended 31 December 2014.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

(Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

	Notes	**2014**	**2013**
Revenue	*5*	1,439,956	3,344,278
Cost of sales	*7*	(1,133,304)	(2,387,850)
Gross profit		306,652	956,428
Other gains – net	*6*	964,797	148,395
Selling and marketing expenses	*7*	(77,148)	(78,397)
Administrative expenses	*7*	(270,308)	(266,871)
Operating profit		923,993	759,555
Finance income	*8*	99,204	87,455
Finance costs	*9*	(456,753)	(352,117)
Finance costs – net		(357,549)	(264,662)
Share of profits of associates		1,431	4,846
Profit before tax		567,875	499,739
Income tax expense	*12*	(423,600)	(294,609)
Profit for the year		144,275	205,130

	Notes	2014	2013
Other comprehensive income			
Item not to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements into presentation currency		(30,908)	295,109
Other comprehensive income for the year, net of tax		(30,908)	295,109
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		113,367	500,239
(Loss)/profit attributable to:			
Owners of the parent		(105,954)	200,171
Non-controlling interests		250,229	4,959
		144,275	205,130
Total comprehensive income attributable to:			
Owners of the parent	*13*	(137,611)	480,798
Non-controlling interests		250,978	19,441
		113,367	500,239
(Loss)/earnings per share attributable to ordinary equity holders of the parent	*15*		
– Basic		HK(1.87) cents	HK3.53 cents
– Diluted		HK(1.87) cents	HK3.53 cents

Details of the dividends paid and proposed are disclosed in Note 14 to the financial statements.

The accompanying notes are an integral part of these consolidated financial statements.

STATEMENTS OF FINANCIAL POSITION

31 December 2014

(Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

		Group		Company	
	Notes	**2014**	**2013**	**2014**	**2013**
ASSETS					
Non-current assets					
Property, plant and equipment	*17*	1,672,425	1,343,584	445	829
Investment properties	*18*	6,709,310	5,214,575	–	–
Prepaid land lease payments	*19*	133,023	137,806	–	–
Goodwill	*20*	569,329	651,308	–	–
Investments in subsidiaries	*21(a)*	–	–	5,110,023	5,127,579
Advances to subsidiaries	*21(b)*	–	–	1,305,438	1,372,791
Investments in associates	*22*	57,512	75,939	–	–
Deferred tax assets	*32*	394,332	510,324	–	–
Non-current prepayments	*24*	6,338	6,360	–	–
Available-for-sale investments	*31*	12,676	–	–	–
Other non-current assets	*34*	34,225	–	–	–
		9,589,170	7,939,896	6,415,906	6,501,199
Current assets					
Prepaid land lease payments	*19*	12,193,194	11,300,584	–	–
Properties held or under development for sale	*23*	9,367,652	7,991,138	–	–
Inventories		18,014	12,076	–	–
Dividends receivable from subsidiaries		–	–	2,473,852	2,482,348
Prepayments and other current assets	*24*	3,372,619	1,145,340	7,487	2,881
Other receivables	*25*	389,118	503,816	–	–
Trade receivables	*26*	47,356	35,503	–	–
Prepaid income tax		240,763	170,740	–	–
Cash and bank balances	*27*	2,108,997	2,941,096	58,486	56,698
		27,737,713	24,100,293	2,539,825	2,541,927
Total assets		37,326,883	32,040,189	8,955,731	9,043,126

	Notes	Group 2014	Group 2013	Company 2014	Company 2013
EQUITY AND LIABILITIES					
Equity					
Issued capital and premium	*28*	6,000,738	6,000,738	6,000,738	6,000,738
Other reserves	*29*	1,688,257	1,714,864	1,410,965	1,436,744
Retained profits/(accumulated losses)	*29*	1,347,736	1,454,952	(64,874)	4,900
Proposed final dividend	*14*	–	60,046	–	60,046
Equity attributable to owners of the parent		9,036,731	9,230,600	7,346,829	7,502,428
Non-controlling interests		566,804	322,755	–	–
Total equity		9,603,535	9,553,355	7,346,829	7,502,428
LIABILITIES					
Non-current liabilities					
Interest-bearing bank and other borrowings	*30*	12,365,003	10,233,940	373,395	326,048
Deferred tax liabilities	*32*	2,154,852	1,943,823	–	–
		14,519,855	12,177,763	373,395	326,048
Current liabilities					
Interest-bearing bank and other borrowings	*30*	7,229,169	5,322,462	1,234,048	1,193,986
Convertible bonds – host debts	*33*	–	8,332	–	8,332
Advances received from the pre-sale of properties under development	*35*	1,542,255	1,177,218	–	–
Trade payables	*36*	2,135,637	1,804,043	–	–
Other payables and accruals	*37*	721,529	421,021	1,459	12,332
Current income tax liabilities		1,574,903	1,575,995	–	–
		13,203,493	10,309,071	1,235,507	1,214,650
Total liabilities		27,723,348	22,486,834	1,608,902	1,540,698
Total equity and liabilities		37,326,883	32,040,189	8,955,731	9,043,126
Net current assets		14,534,220	13,791,222	1,304,318	1,327,277
Total assets less current liabilities		24,123,390	21,731,118	7,720,224	7,828,476

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

(Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

	Attributable to owners of the parent										
	Issued capital and premium *(Note 28)*	Asset revaluation reserve	Surplus reserve	Exchange fluctuation reserve	Other reserves	Equity component of convertible bonds	Retained profits	Proposed final dividend	Total	Non-controlling interests	Total equity
At 1 January 2014	6,000,738	1,211*	367,249*	1,740,855*	(397,261)*	2,810*	1,454,952	60,046	9,230,600	322,755	9,553,355
Total comprehensive income for the year	–	–	–	(31,657)	–	–	(105,954)	–	(137,611)	250,978	113,367
Appropriation from retained profits	–	–	1,262	–	–	–	(1,262)	–	–	–	–
Acquisition of subsidiaries *(Note 41)*	–	–	–	–	–	–	–	–	–	21,878	21,878
Disposal of subsidiaries *(Note 42)*	–	–	–	–	–	–	–	–	–	(20,430)	(20,430)
Change due to increase in equity interests in subsidiaries	–	–	–	–	192	–	–	–	192	(445)	(253)
Change due to decrease in equity interests in subsidiaries	–	–	–	–	3,596	–	–	–	3,596	(3,598)	(2)
Dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(4,334)	(4,334)
Transfer upon the redemption of CB4	–	–	–	–	2,810	(2,810)	–	–	–	–	–
Final 2013 dividend distribution	–	–	–	–	–	–	–	(60,046)	(60,046)	–	(60,046)
At 31 December 2014	6,000,738	1,211*	368,511*	1,709,198*	(390,663)*	–*	1,347,736	–	9,036,731	566,804	9,603,535
At 1 January 2013	6,000,738	1,211*	320,136*	1,460,228*	(89,069)*	2,810*	1,361,940	–	9,057,994	704,340	9,762,334
Total comprehensive income for the year	–	–	–	280,627	–	–	200,171	–	480,798	19,441	500,239
Appropriation from retained profits	–	–	47,113	–	–	–	(47,113)	–	–	–	–
Acquisition of a non-controlling interest	–	–	–	–	(308,192)	–	–	–	(308,192)	(417,321)	(725,513)
Capital contribution from non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	18,844	18,844
Dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(2,549)	(2,549)
Proposed final 2013 dividend *(Note 14)*	–	–	–	–	–	–	(60,046)	60,046	–	–	–
At 31 December 2013	6,000,738	1,211*	367,249*	1,740,855*	(397,261)*	2,810*	1,454,952	60,046	9,230,600	322,755	9,553,355

The accompanying notes are an integral part of these consolidated financial statements.

* *These reserve accounts comprise the consolidated reserves of HK$1,688,257 thousand (2013: HK$1,714,864 thousand) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

(Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

	Notes	**2014**	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	*38*	(2,986,404)	(1,456,647)
Interest paid		(1,584,082)	(1,134,226)
Income tax paid		(159,129)	(303,259)
Net cash flows used in operating activities		(4,729,615)	(2,894,132)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(308,544)	(281,593)
Proceeds from disposal of items of property, plant and equipment		53,931	844
Payments for investment properties		(5,358)	(5,964)
Acquisition of subsidiaries		(14,724)	–
Disposal of subsidiaries		148,061	369,285
Purchase of available-for-sale investments		(12,676)	–
Reduction of capital of an associate		16,406	–
Settlement of receivables in connection with acquisition of Konmen Investment Limited		1,025	532,622
Earnest money paid to a third party for acquisition of a company		–	(6,360)
Decrease/(increase) in time deposits with original maturity of over three months		2,543	(78)
Dividends received from an associate		3,111	7,800
Interest received		73,212	44,390
Net cash flows (used in)/from investing activities		(43,013)	660,946

	Notes	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments for the redemption of Guaranteed Senior Notes		–	(561,574)
Payments for acquisition of an equity interest of a subsidiary from a non-controlling shareholder		–	(458,000)
Decrease/(increase) in pledged bank deposits		36,582	(776,286)
Increase in restricted deposits in relation to bank borrowings		(24,203)	(4,507)
Proceeds from short-term borrowings		1,695,457	978,945
Repayments of short-term borrowings		(742,933)	(500,063)
Proceeds from long-term borrowings		5,516,578	11,005,519
Repayments of long-term borrowings		(2,437,413)	(7,380,916)
Payments for the redemption of CB4		(8,813)	–
Cash received from the capital injection from non-controlling shareholders of subsidiaries		–	18,844
Dividends paid to the Company's shareholders		(60,046)	–
Dividends paid to non-controlling shareholders of a subsidiary		(4,334)	(243)
Net cash flows from financing activities		3,970,875	2,321,719
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(801,753)	88,533
Cash and cash equivalents at beginning of year		1,382,220	1,253,004
Effect of foreign exchange rate changes, net		(8,288)	40,683
CASH AND CASH EQUIVALENTS AT END OF YEAR	*27*	572,179	1,382,220

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

(Amounts expressed in Hong Kong dollars and rounded to nearest thousand unless otherwise stated)

1. CORPORATE INFORMATION

SRE Group Limited (the "Company") was incorporated in Bermuda with limited liability on 11 August 1999 as an exempted company under the Bermuda Companies Act 1981. Pursuant to a group reorganisation (the "Reorganisation") in connection with the listing of the Company's shares on the Hong Kong Exchange and Clearing Limited (the "HKEx"), the Company became the holding company of the other companies comprising the Group on 12 November 1999. Further details of the Reorganisation are set out in the Company's prospectus dated 30 November 1999. The shares of the Company were listed on the HKEx on 10 December 1999. The principal place of business of the Company is located at Suite 4006, 40/F, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong.

Currently, the Company and its subsidiaries (collectively referred to as the "Group") are mainly engaged in real estate development, property leasing and hotel operations in Mainland China.

In the opinion of the Directors, as at 31 December 2014, the Company's parent company is SRE Investment Holding Limited (the "SREI"), which holds 51.01% of the Company's shares (51.43% as at 31 December 2013). The remaining 48.99% of the shares are held by various different shareholders.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap.32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap.622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention, except for investment properties and derivative financial instruments which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

In preparing the financial statements, the directors of the Company have considered the Group's sources of liquidity, its ability to maintain adequate cash inflow from operations and financing to meet its financial obligations as and when they fall due, and believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Operating cycle

The operating cycle of the Group is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. Due to the nature of the Group's business, the Group's normal operating cycle is longer than 12 months. The Group's current assets include assets (such as properties held or under development for sale and land development for sale) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within 12 months after the end of the reporting period.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards and new interpretation for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	*Investment Entities*
Amendments to HKAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to HKAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to HKAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	Levies
Annual Improvements 2010-2012 Cycle	Amendment to HKFRS 2 *Definition of Vesting Condition*[1]
Annual Improvements 2010-2012 Cycle	Amendment to HKFRS 3 *Accounting for Contingent Consideration in a Business Combination*[1]
Annual Improvements 2010-2012 Cycle	Amendment to HKFRS 13 *Short-term Receivables and Payables*
Annual Improvements 2010-2012 Cycle	Amendment to HKFRS 1 *Meaning of Effective HKFRSs*

[1] Effective from 1 July 2014

The adoption of the revised standards and new interpretation has had no significant effect on these financial statements.

2.3 NEW AND REVISED HKFRSS AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONGKONG COMPANIES ORDINANCE NOT YET ADOPTED

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements. Currently, the Group expects to adopt them when they become effective.

HKFRS 9	*Financial Instruments*[4]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sales or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
HKFRS 14	*Regulatory Deferral Accounts*[5]
HKFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to HKFRS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[2]
Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[2]
Amendments to HKAS 1	*Disclosure Initiative*[2]
Amendments to HKFRS 10, HKFRS 12, and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[2]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2010-2013 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2010-2014 Cycle	Amendments to a number of HKFRSs[2]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018
5 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

In January 2015, the HKICPA issued amendments to HKAS 1 to further encourage companies to apply professional judgement in determining what information to disclose and how to structure it in their financial statements. The amendments to HKAS 1 include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, and Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. The Group expects to adopt the amendments from 1 January 2016.

The amendments to HKFRS 10 Consolidated Financial Statements, HKFRS 12 Disclosure of Interests in Other Entities and HKAS 28 Investments in Associates and Joint Ventures introduce minor clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards.

The amendments can be applied immediately, and become mandatory for annual periods beginning on or after 1 January 2016. Currently, it is expected that the amendments would have no significant impact on the Group's financial statements.

The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Except for those described in Note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss and other comprehensive income to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are stated at cost less any impairment losses.

Investments in associates and joint ventures

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

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss and other comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired assets.

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss and other comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Hotel buildings	Shorter of 40 years and the remaining terms of the leases, which range from 30 to 40 years
Other buildings	20 years
Leasehold improvements	Shorter of the remaining period of the lease and the useful life of the assets
Furniture, fittings, fixtures and office equipment	5 to 10 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss and other comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss and other comprehensive income in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss and other comprehensive income in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss and other comprehensive income.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 to 15 years.

Research and development costs

All research costs are charged to the statement of profit or loss and other comprehensive income as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss and other comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss and other comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as other gains in the statement of profit or loss and other comprehensive income. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss and other comprehensive income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of profit or loss and other comprehensive income. The loss arising from impairment is recognised in the statement of profit or loss and other comprehensive income in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss and other comprehensive income in other gains, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss and other comprehensive income in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss and other comprehensive income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss and other comprehensive income.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other gains in the statement of profit or loss and other comprehensive income.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss and other comprehensive income, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss and other comprehensive income – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss and other comprehensive income. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss and other comprehensive income if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss and other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, derivative financial instruments, interest-bearing bank loans and other borrowings, guaranteed senior notes, and convertible bonds.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss and other comprehensive income. The net fair value gain or loss recognised in the statement of profit or loss and other comprehensive income does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

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

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

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component (including host debt and, if any, embedded derivatives other than the equity component) is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option (the equity component) that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Where the conversion option of a convertible bond does not meet the definition of equity, the convertible bond contains only liability and derivative components. On initial recognition, the entire convertible bond is either designated as a financial liability at fair value through profit or loss or separated into derivative financial liabilities (including all embedded derivatives that should be separated from the host debt) and host debt which are carried at fair value and amortised cost respectively. If the embedded derivatives are separated from the host debt, transaction costs are apportioned between the host debt and derivative components of the convertible bonds based on the allocation of proceeds to the host debt and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the host debt is recognised initially as part of the host debt liability. The portion relating to the derivative component is recognised immediately in the statement of profit or loss and other comprehensive income.

Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income.

Offsetting of financial instruments

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

Derivative financial instruments

Initial recognition and subsequent measurement

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative as defined by HKAS 39 is recognised in the statement of profit or loss as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss and other comprehensive income, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

(a) Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

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

(c) Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Properties held or under development for sale

Properties held or under development for sale are included in current assets at the lower of cost and net realisable value.

The costs of properties held or under development for sale comprise specifically identified cost, including acquisition costs, development expenditures and borrowing costs and other related expenditure directly attributable to the development of such properties. Net realisable value is based on estimated selling price in the ordinary course of business as determined by management with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing costs.

Inventories

Inventories mainly comprise food, beverages, operating supplies and low value consumables used in hotel, and are stated at the lower of cost or net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss and other comprehensive income.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

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

Sale of development properties

Revenue from the sale of properties is recognised upon completion of a sale agreement, which refers to the time when properties are completed and delivered to the buyers. Deposits and instalments received on properties sold prior to completion of the respective sale agreements are included as advances received from the pre-sale of properties under development.

Property leasing under operating leases

Operating lease income from investment properties is recognised on the straight-line basis over the lease term, which is the non-cancellable period for which the lessee has contracted to lease the properties together with any further terms for which the lessee has the option to continue to lease the properties, with or without further payments, when it is reasonably certain that the lessee will exercise the option at the inception of the lease.

Construction of infrastructure for an intelligent network

Revenue from the construction of infrastructure for an intelligent network is recognised as follows:

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred and it is probable that such costs incurred will be recovered.

Property management revenue

Property management revenue is recognised in the accounting period in which the services are rendered.

Hotel operations

Revenue from hotel operations represents the income from hotel rooms and the sale of related food and beverages, which is recognised when the services are rendered or goods are sold.

Interest income

Interest income is recognised on an accrual basis using the effective interest method.

Dividend income

Dividend income is recognised when the shareholders' right to receive payment is established.

Other employee benefits

Employee retirement scheme

The employees of the Group's entities which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The entities are required to contribute 14% to 22% (2013: 14% to 22%) of the standard salary announced by the government to the central pension scheme. The contributions are charged to the statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the central pension scheme. In addition, the Group participates in the Mandatory Provident Fund Scheme, under which contributions of 5% of the Hong Kong employee's basic salaries are made by the employer and the Hong Kong employees, respectively. The provision and contributions have been included in the statement of profit or loss and other comprehensive income upon incurrence. The Group has no obligation for the payment of pension benefits beyond the contributions described above.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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

Government grants

Government grants (including non-monetary grants) are recognised at their fair value where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is deducted from the relevant asset before arriving at the carrying amount of the asset and released to the statement of profit or loss and other comprehensive income by way of a reduced cost of assets' charge. Grants received in connection with the Group's role in planning and constructing the ancillary public facilities are deducted from the development cost of the ancillary public facilities and would be recognised indirectly in the form of an increased profit margin over the course of recognising revenue in connection with the ancillary public facilities services.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

For a distribution of non-cash assets to shareholders, the Group measures the liability to distribute non-cash assets as a dividend to its shareholders at the net carrying amount of the assets to be distributed when the non-cash asset is ultimately controlled by the same parties both before and after the distribution.

Foreign currencies

(a) Functional and presentation currencies

Items included in the financial statements of each of the entities in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's and its subsidiaries' functional currency is Renminbi ("RMB"), as the major revenues are derived from operations in Mainland China. Since the Company is listed on the HKEx, the Hong Kong dollar ("HK$") is chosen as the presentation currency to present these financial statements.

(b) Transactions and balances

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities of the Group are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period;

(ii) income and expenses of the Group are translated into the presentation currency at the average exchange rates for the period (unless such average rates are not the reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated into the presentation currency at the exchange rates ruling at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

For the purpose of the consolidated statement of cash flows, the cash flows of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of which arise throughout the year are translated into the presentation currency at the weighted average exchange rates for the year.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, if any, and all monetary items that provide an effective hedge for such investments, if any, are recognised in other comprehensive income. When a foreign operation is disposed of, such exchange differences are recognised in profit or loss as part of the gain or loss on sale.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amount of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group. Contingent liabilities (except for contingent liabilities recognised in a business combination) and assets are not recognised on the statement of financial position of the Group and the Company.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

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

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2014 was HK$569 million (2013: HK$651 million).

For details of goodwill, please see Note 20.

Estimation of fair value of investment properties

Investment properties were revalued at the end of each reporting period during the years ended 31 December 2014 and 31 December 2013 using the term and reversion method on the basis of capitalisation of net rental income derived from the existing tenancies with due allowance for reversionary income potential of the property interest, the direct capitalisation method by assuming a stabilised economic income capitalised by a market yield rate and the direct comparison approach with reference to the sales transactions of the comparable properties by independent professionally qualified valuers. These valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimate, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

Investment properties under construction are also carried at fair value as determined by independent professionally qualified valuers, except if such values cannot be reliably determined. In the exceptional cases when a fair value cannot be reliably determined, such properties are recorded at cost. The fair value of investment properties under construction is determined using the residual method.

For details of change in fair values of investment properties and further details including the key assumptions used for fair value measurement and a sensitivity analysis in 2014, please see Note 18.

Deferred tax assets, liabilities and current income tax charge

Uncertainties exist with respect to the interpretation of certain tax regulations and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax credit and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of these provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the domicile of the respective group entity.

Deferred tax assets are recognised for deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimates, such differences will impact on the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed.

For details of deferred tax assets and liabilities and income tax, please see Note 32 and Note 12.

Impairment of receivables

Impairment of receivables is made based on assessment of the recoverability of receivables. The identification of impairment of receivables requires management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimation, such difference will have impact on the carrying value of the receivables and impairment of receivables/reversal of impairment in the period in which such estimate has been changed.

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. These estimates could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or management will write off or write down technically obsolete assets that have been abandoned.

The carrying value of an item of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in Note 2.4. The recoverable amount of an item of property, plant and equipment is calculated as the higher of its fair value less costs of disposal and the value in use, which involve the use of estimates.

For details of property, plant and equipment, please see Note 17.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment test exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- The property development segment develops and sells residential and commercial properties;
- The property leasing segment leases offices and commercial properties owned by the Group which are classified as investment properties;
- The hotel operations segment provides hotel accommodation, hotel catering and conference hall services; and
- The corporate and other operations segment comprises, principally, the provision of property management services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. The performance of each segment is evaluated based on its operating profit or loss before tax and the methodology used for its calculation is same as that for the consolidated financial statements. However, group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

An analysis by operating segment is as follows:

	2014				
	Property development	**Property leasing**	**Hotel operations**	**Corporate and other operations**	**Total**
Segment revenue					
Sales to external customers	960,402	106,078	183,755	189,721	1,439,956
Intersegment sales	–	–	–	60,973	60,973
	960,402	106,078	183,755	250,694	1,500,929
Reconciliation:					
Elimination of intersegment sales					(60,973)
Revenue					1,439,956
Segment profit/(loss)	(92,034)	1,047,315	9,160	(40,448)	923,993
Finance income					99,204
Finance costs					(456,753)
Finance costs – net					(357,549)
Share of profits of associates					1,431
Profit before tax					567,875
Segment assets and liabilities					
Segment assets	27,944,150	6,721,673	1,817,413	786,135	37,269,371
Investments in associates					57,512
Total assets					37,326,883
Segment liabilities	20,843,829	3,123,360	980,598	2,775,561	27,723,348
Total liabilities	20,843,829	3,123,360	980,598	2,775,561	27,723,348
Other segment information:					
Depreciation and amortisation	7,417	271	45,489	2,034	55,211
Capital expenditure*	4,093	5,402	387,199	6,111	402,805
Fair value gain on investment properties, net	–	993,326	–	–	993,326
Impairment of goodwill	79,398	–	–	–	79,398

* Capital expenditure consists of additions of property, plant and equipment (HK$397,447 thousand) and investment properties (HK$5,358 thousand).

	2013				
	Property development	Property leasing	Hotel operations	Corporate and other operations	Total
Segment revenue					
Sales to external customers	2,897,110	88,094	184,073	175,001	3,344,278
Intersegment sales	–	–	–	457,470	457,470
	2,897,110	88,094	184,073	632,471	3,801,748
Reconciliation:					
Elimination of intersegment sales					(457,470)
Revenue					3,344,278
Segment profit/(loss)	586,838	202,425	20,963	(50,671)	759,555
Finance income					87,455
Finance costs					(352,117)
Finance costs – net					(264,662)
Share of profits of associates					4,846
Profit before tax					499,739
Segment assets and liabilities					
Segment assets	24,447,240	5,221,938	1,475,883	819,189	31,964,250
Investments in associates					75,939
Total assets					32,040,189
Segment liabilities	17,180,296	2,243,786	670,930	2,391,822	22,486,834
Total liabilities	17,180,296	2,243,786	670,930	2,391,822	22,486,834
Other segment information:					
Depreciation and amortisation	11,332	299	39,818	1,734	53,183
Capital expenditure*	1,417	6,068	543,978	2,171	553,634
Fair value gain on investment properties, net	–	166,291	–	–	166,291
Impairment of goodwill	17,206	–	–	–	17,206
Reversal for impairment of receivables	817	–	–	–	817

* Capital expenditure consists of additions of property, plant and equipment (HK$547,670 thousand) and investment properties (HK$5,964 thousand).

Geographical information

(a) As of 31 December 2014, 100% (2013: more than 95%) of the sales to external customers of the Group are generated from Mainland China.

(b) Non-current assets

As of 31 December 2014, more than 99% (2013: more than 99%) of the Group's non-current assets (based on the locations of the assets and excludes financial instruments and deferred tax assets) were located in Mainland China.

Information about major customers

The Group's customers from whom the revenue derived are widely dispersed. No customer or a single group of customers which are known to be under common control contributed 10% or more of the Group's revenue for the years ended 31 December 2014 and 2013.

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold; an appropriate proportion of contract revenue of construction contracts; the value of services rendered; room charges from hotel operations and gross rental income received and receivable from investment properties during the year.

An analysis of revenue is as follows:

	2014	**2013**
Sale of development properties	1,021,621	3,057,046
Hotel operations	194,757	195,092
Revenue from property leasing *(Note 18)*	115,685	96,596
Property management revenue	172,205	154,210
Revenue from construction of infrastructure for an intelligent network	21,914	35,262
Other revenue	15,486	14,801
	1,541,668	3,553,007
Less: Business tax and surcharges	(101,712)	(208,729)
Total revenue	1,439,956	3,344,278

Business tax and surcharges

Business tax is calculated at 5% of the revenue from the sale of properties, hotel operations, the provision of property management services and property leasing and at 3% of the net income received from the construction of infrastructure for an intelligent network after deducting amounts payable to subcontractors.

Government surcharges, comprising City Maintenance and Construction Tax, Education Surtax and River Way Management Fee, are calculated at certain percentages of business tax.

6. OTHER GAINS – NET

An analysis of other gains – net is as follows:

	2014	2013
Fair value gain on investment properties, net *(Note 18)*	993,326	166,291
Gain/(loss) on disposal of items of property, plant and equipment, net	43,079	(2,407)
Impairment of goodwill *(Note 20)*	(79,398)	(17,206)
Reversal of impairment of receivables	–	817
Gain on disposal of subsidiaries *(Note 42)*	1,662	–
Others	6,128	900
	964,797	148,395

7. EXPENSE BY NATURE

An analysis of expense by nature is as follows:

	2014	2013
Cost of inventories sold (excluding depreciation)	1,089,697	2,350,149
Depreciation of items of property, plant and equipment *(Note 17)*	50,468	48,732
Employee benefit expense (including directors' and chief executive's emoluments):		
– Wages and salaries	103,018	89,036
– Other social welfare	23,816	25,835
	126,834	114,871
Operating lease payments in respect of buildings	4,956	7,742
Auditors' remuneration	5,275	5,439
Commission for sale of properties	16,063	23,419
Advertising costs	25,547	40,290
Miscellaneous tax	47,632	43,348
Transportation fee	11,746	11,728
Office expenses	5,961	5,942
Exhibition fees	3,609	3,718
Water and electricity costs	5,978	6,485
Business entertainment expenses	7,775	8,915
Others	79,219	62,340
	1,480,760	2,733,118

8. FINANCE INCOME

An analysis of finance income is as follows:

	2014	2013
Interest income	104,868	58,190
Net foreign exchange (loss)/gain	(5,664)	29,265
	99,204	87,455

9. FINANCE COSTS

An analysis of finance costs is as follows:

	2014	2013
Interest expense:		
Interest on bank borrowings and other borrowings		
– wholly repayable within five years	1,401,354	971,141
Interest on bank borrowings and other borrowings		
– wholly repayable beyond five years	181,211	108,576
Interest on the guaranteed senior notes		
– wholly repayable within five years	–	16,274
Interest on CB4 – wholly repayable within five years *(Note 33)*	872	1,429
	1,583,437	1,097,420
Less: Interest capitalised	(1,126,684)	(745,303)
Finance costs	456,753	352,117

During the year ended 31 December 2014, the weighted average interest capitalisation rate was 9.26% (2013: 9.41 %).

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration from the Group for the year, disclosed pursuant to the Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap 622) with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	2014	2013
Fees	2,057	2,128
Other emolument:		
Salaries	14,405	11,703
	16,462	13,831

Executive directors, non-executive directors and independent non-executive directors:

Name of director and the chief executive	2014 Salaries	Fees	Total
Executive directors			
– Mr. Yu Hai Sheng	3,000	-	3,000
– Mr. Jiang Xu Dong (resigned in 2014)	2,500	-	2,500
– Mr. Wang Zi Xiong (Chief executive)	2,525	-	2,525
– Mr. Shi Jian	2,000	-	2,000
– Mr. Li Yao Min	2,000	-	2,000
– Mr. Zhang Hongfei	1,326	-	1,326
– Mr. Shi Lizhou	1,054	-	1,054
Non-executive directors			
– Mr. Cheung Wing Yui	-	360	360
– Mr. Jin Bing Rong	-	330	330
Independent non-executive directors			
– Mr. Chan, Charles Sheung Wai	-	330	330
– Mr. Yuan Pu (resigned in 2014)	-	275	275
– Mr. Zhuo Fu Min	-	360	360
– Mr. Yang Chao	-	330	330
– Mr. Guoping (appointed in 2014)	–	72	72
Total	14,405	2,057	16,462

Name of director and the chief executive	2013 Salaries	Fees	Total
Executive directors			
– Mr. Yu Hai Sheng	2,558	–	2,558
– Mr. Jiang Xu Dong (Chief executive)	2,367	–	2,367
– Mr. Wang Zi Xiong (appointed in 2013)	1,902	–	1,902
– Mr. Shi Jian	1,562	–	1,562
– Mr. Zhang Hongfei	1,331	–	1,331
– Mr. Shi Lizhou	1,058	–	1,058
– Mr. Li Yao Min	925	–	925
Non-executive directors			
– Mr. Cheung Wing Yui	–	360	360
– Mr. Jin Bing Rong	–	330	330
Independent non-executive directors			
– Mr. Chan, Charles Sheung Wai	–	330	330
– Mr. Yuan Pu	–	330	330
– Mr. Jiang Xie Fu	–	382	382
– Mr. Zhuo Fu Min	–	360	360
– Mr. Yang Chao (appointed in 2013)	–	36	36
Total	11,703	2,128	13,831

No discretionary bonuses, inducement fees, employer's contribution to pension schemes or compensation for loss of office as directors were given to any of the directors during the years ended 31 December 2014 and 2013.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the years ended 31 December 2014 and 2013.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year were all directors, details of whose remuneration are set out in Note 10 above. The five highest paid employees of the Group in 2013 included three directors and two non-directors, detail are listed in Note 10 and below, respectively:

	2014	2013
Salaries, housing allowances, other allowances and benefits in kind	–	3,580

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	2014	2013
HK$1,500,001 – HK$2,000,000	–	2

12. INCOME TAX

An analysis of income tax is as follows:

	2014	2013
Current taxation		
– Mainland China income tax *(a)*	15,963	105,533
– Mainland China LAT *(c)*	77,176	165,550
	93,139	271,083
Deferred taxation		
– Mainland China income tax	388,293	86,876
– Mainland China LAT	(49,739)	(74,136)
– Mainland China withholding tax *(d)*	(8,093)	10,786
	330,461	23,526
Total tax charge for the year	423,600	294,609

(a) Mainland China income tax

The Group conducts a significant portion of its business in Mainland China and the applicable income tax rate of its subsidiaries operating in Mainland China is generally 25%, in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

For the pre-sale of properties under development, the tax authorities may impose income tax ahead of the completion of sale transactions and revenue recognition based on certain estimations. The outstanding balance of prepaid income tax was approximately HK$81 million as at 31 December 2014 (2013: HK$35 million).

(b) Other income tax

The Company is exempted from taxation in Bermuda until 2016. Taxes on profits assessable elsewhere are calculated at the rates of tax prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

(c) Mainland China land appreciation tax ("LAT")

LAT is incurred upon transfer of property and land ownership and is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including land costs, borrowing costs, business taxes and all property development expenditures.

For the pre-sale of properties under development, the tax authorities may impose LAT ahead of the completion of transactions and revenue recognition, generally based on 1.5% to 5% (2013: 1.5% to 4.5%) on proceeds of the sale and pre-sale of properties. Prepaid LAT has been recorded in "prepaid income tax" with an amount of approximately HK$160 million as at 31 December 2014 (2013: approximately HK$136 million).

(d) Mainland China withholding tax

Pursuant to the PRC Corporate Income Tax Law which became effective on 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained profits as at 31 December 2007 are exempted from withholding tax.

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rate of 25% for the jurisdiction in which the majority of the Company's subsidiaries are domiciled to the tax expense at the Group's effective tax rate is as follows:

	2014	**2013**
Profit before tax	567,875	499,739
Tax at the applicable tax rate of 25%	141,969	124,935
Different tax rates for certain subsidiaries	–	1,129
Tax effect of results attributable to associates	(358)	(1,211)
Impact of LAT (which is itself classified as part of income tax) as it is deductible for income tax purposes	(6,859)	(22,853)
Income not subject to tax	(1,007)	(3,602)
Tax losses not recognised	106,997	67,855
Expenses not deductible for tax	15,784	12,510
Previously recognised deferred tax assets arising from tax losses written off*	147,730	41,808
Adjustment to current income tax in respect of prior years	–	(28,162)
Effect of withholding tax at 10% on the retained profits expected to be distributed of the Group's subsidiaries in Mainland China	(8,093)	10,786
Mainland China income tax	396,163	203,195
Mainland China LAT (including deferred LAT)	27,437	91,414
Total tax expense for the year at the Group's effective tax rate	423,600	294,609

* Based on the profit forecast prepared by management as of 31 December 2013, Shanghai Skyway Hotel Co., Ltd. ("Skyway") will be able to generate sufficient taxable profits in future years from sales of SRE Financial Centre, the property developed by Skyway, with total sellable area of 35,165 square meters and accordingly the deferred tax asset of approximately

RMB117 million (approximately HK$149 million) was recognised. During the year, considering the scarcity and the value of properties in central business districts of Shanghai, and in order to expand the portfolio of scarce properties held by the Group, the management change its plan and transferred all the remaining unsold floor area of SRE Financial Centre amounting to 28,072 square meters from property held for sale to investment property. Due to this change in business plan, management re-assessed and wrote off the deferred tax asset of approximately RMB117 million (approximately HK$148 million) as rental income arising from the investment property would probably not be able to generate sufficient taxable income for the realisation of the deferred tax asset in the foreseeable future.

The share of taxes attributable to associates amounting to approximately nil (2013: HK$0.7 million) is included in "share of profits and losses of associates" on the face of the consolidated statement of profit or loss and other comprehensive income.

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2014 includes a loss of HK$69,774 thousand (2013: gain of HK$58,085 thousand) which has been dealt with in the financial statements of the Company.

14. DIVIDENDS PAID AND PROPOSED

	2014	**2013**
Proposed final dividend	–	60,046

The Board of Directors has resolved not to recommend the payment of final dividend in respect of the year ended 31 December 2014 (2013: HK1.06 cents per share).

The 2013 proposed final dividend totaling HK$60,046,000 of HK1.06 cents per share was approved by the Company's shareholders at the annual general meeting on 29 May 2014 and was distributed in July 2014.

15. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 5,664,713 thousand (2013: 5,664,713 thousand) in issue during the year.

For the year ended 31 December 2013, the calculation of diluted earnings per share amounts did not take into account the convertible bonds (Note 33) of the Company, because they are anti-dilutive. Hence, the diluted earnings per share amounts are the same as the basic earnings per share for the year ended 31 December 2013.

The following reflects the income and share data used in the basic and diluted (loss)/earnings per share computations:

	2014	**2013**
Earnings		
(Loss)/profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	(105,954)	200,171

	Number of shares 2014 (Thousand shares)	2013 (Thousand shares)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	5,664,713	5,664,713

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

16. OTHER INTANGIBLE ASSETS

Group

	2014 Non-patented technology	Others	Total
Cost at 1 January 2014, net of accumulated amortisation	–	–	–
Acquisition of subsidiaries *(Note 41)*	13,924	2,801	16,725
Additions – internal development	–	1,856	1,856
Amortisation provided during the year	(266)	–	(266)
Disposal of subsidiaries *(Note 42)*	(13,600)	(4,634)	(18,234)
Exchange realignment	(58)	(23)	(81)
At 31 December 2014	–	–	–

The movements of other intangible assets represented the intangible assets acquired by the Group through the acquisition of equity interests in two subsidiaries in March 2014, which were subsequently disposed of in July and September 2014, respectively (see Note 41 and Note 42).

17. PROPERTY, PLANT AND EQUIPMENT

Group

	2014					
	Buildings	Leasehold improvements	Furniture, fittings, fixtures and office equipment	Motor vehicles	Construction in progress	Total
Cost						
Beginning of year	534,176	3,710	391,437	70,196	753,387	1,752,906
Additions	–	991	6,397	1,963	388,096	397,447
Disposals	(12,083)	–	(857)	(5,979)	–	(18,919)
Acquisition of subsidiaries *(Note 41)*	–	–	1,126	–	–	1,126
Disposal of subsidiaries *(Note 42)*	–	–	(4,304)	–	(1,118)	(5,422)
Exchange realignment	(1,882)	(8)	(1,337)	(258)	(863)	(4,348)
End of year	520,211	4,693	392,462	65,922	1,139,502	2,122,790
Accumulated depreciation and impairment						
Beginning of year	88,050	678	260,988	59,606	–	409,322
Depreciation charge *(Note 7)*	14,199	712	32,340	3,217	–	50,468
Disposals	(1,817)	–	(787)	(5,464)	–	(8,068)
Acquisition of subsidiaries *(Note 41)*	–	–	632	–	–	632
Disposal of subsidiaries *(Note 42)*	–	–	(771)	–	–	(771)
Exchange realignment	(246)	1	(759)	(214)	–	(1,218)
End of year	100,186	1,391	291,643	57,145	–	450,365
Net carrying amount						
Balance, end of year	420,025	3,302	100,819	8,777	1,139,502	1,672,425
Balance, beginning of year	446,126	3,032	130,449	10,590	753,387	1,343,584

	2013					
	Buildings	Leasehold improvements	Furniture, fittings, fixtures and office equipment	Motor vehicles	Construction in progress	Total
Cost						
Beginning of year	517,905	2,217	405,235	68,999	195,770	1,190,126
Additions	–	1,402	2,395	499	543,374	547,670
Disposals	–	–	(28,548)	(1,402)	–	(29,950)
Exchange realignment	16,271	91	12,355	2,100	14,243	45,060
End of year	534,176	3,710	391,437	70,196	753,387	1,752,906
Accumulated depreciation and impairment						
Beginning of year	71,657	417	251,004	52,121	–	375,199
Depreciation charge *(Note 7)*	13,934	244	27,799	6,755	–	48,732
Disposals	–	–	(25,730)	(969)	–	(26,699)
Exchange realignment	2,459	17	7,915	1,699	–	12,090
End of year	88,050	678	260,988	59,606	–	409,322
Net carrying amount						
Balance, end of year	446,126	3,032	130,449	10,590	753,387	1,343,584
Balance, beginning of year	446,248	1,800	154,231	16,878	195,770	814,927

Depreciation expenses of approximately HK$43,607 thousand (2013: approximately HK$37,701 thousand), of approximately HK$198 thousand (2013: approximately HK$206 thousand) and of approximately HK$6,663 thousand (2013: approximately HK$10,825 thousand) had been respectively expensed in the cost of goods sold, selling and marketing costs and administrative expenses.

As at 31 December 2014, the property, plant and equipment with a net carrying amount of HK$1,668,422 thousand (2013: HK$1,308,566 thousand) were pledged as collateral for the Group's bank loans and facilities *(Note 30)*.

COMPANY

	2014		
	Furniture, fittings, fixtures and office equipment	**Motor vehicles**	**Total**
Cost			
Beginning of year	381	3,678	4,059
Additions	16	–	16
Disposals	(21)	–	(21)
Exchange realignment	1	(13)	(12)
End of year	377	3,665	4,042
Accumulated depreciation			
Beginning of year	308	2,922	3,230
Depreciation charge	12	383	395
Disposal	(19)	–	(19)
Exchange realignment	(1)	(8)	(9)
End of year	300	3,297	3,597
Net carrying amount			
Balance, end of year	77	368	445
Balance, beginning of year	73	756	829

	2013		
	Furniture, fittings, fixtures and office equipment	**Motor vehicles**	**Total**
Cost			
Beginning of year	528	3,566	4,094
Disposals	(175)	–	(175)
Exchange realignment	28	112	140
End of year	381	3,678	4,059
Accumulated depreciation			
Beginning of year	429	2,193	2,622
Depreciation charge	22	652	674
Disposal	(155)	–	(155)
Exchange realignment	12	77	89
End of year	308	2,922	3,230
Net carrying amount			
Balance, end of year	73	756	829
Balance, beginning of year	99	1,373	1,472

18. INVESTMENT PROPERTIES

GROUP

Completed investment properties

	2014	**2013**
At beginning of year	5,214,575	4,792,658
Transfer from prepaid land lease payments *(Note 19)*	37,817	6,891
Transfer from properties held or under development for sale	469,401	88,223
Fair value gain *(Note 6)*	993,326	166,291
Addition in cost	5,358	5,964
Exchange realignment	(11,167)	154,548
At end of year	6,709,310	5,214,575

The investment properties as at 31 December 2014 mainly represent the properties as follows:

- Portions of eight multi-storey shopping malls and car-park places at Putuo District, Shanghai, with a total fair value of approximately HK$1,280 million, for which the operating leases entered into have terms ranging from 2 to 15 years;
- A seven-storey shopping mall at Shenhe District, Shenyang, with a total fair value of approximately HK$3,429 million, for which the operating leases entered into have terms ranging from 1 to 15 years;
- A supermarket shopping mall at Zhabei District, Shanghai with a fair value of approximately HK$456 million, for which the operating lease has a term of 20 years;
- 108 suits of office of SRE Financial Centre at Huangpu District, Shanghai, with a total fair value of approximately HK$1,524 million, for which the operating leases entered into have terms ranging from two to three years.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2014 using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Recurring fair value measurement for:				
Commercial properties	–	–	6,417,788	6,417,788
Car parks	–	–	291,522	291,522
	–	–	6,709,310	6,709,310

	Fair value measurement as at 31 December 2013 using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Recurring fair value measurement for:				
Commercial properties	–	–	4,923,542	4,923,542
Car parks	–	–	291,033	291,033
	–	–	5,214,575	5,214,575

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties	**Car parks**	**Total**
Carrying amount at 1 January 2013	4,533,193	259,465	4,792,658
Transfer from prepaid land lease payments *(Note 19)*	6,891	–	6,891
Transfer from properties held or under development for sale	88,223	–	88,223
Fair value gain *(Note 6)*	143,218	23,073	166,291
Addition in cost	5,964	–	5,964
Exchange realignment	146,053	8,495	154,548
Carrying amount at 31 December 2013 and 1 January 2014	4,923,542	291,033	5,214,575
Transfer from prepaid land lease payments *(Note 19)*	37,817	–	37,817
Transfer from properties held or under development for sale	*469,401	–	469,401
Fair value gain *(Note 6)*	991,847	1,479	993,326
Addition in cost	5,358	–	5,358
Exchange realignment	(10,177)	(990)	(11,167)
Carrying amount at 31 December 2014	6,417,788	291,522	6,709,310

* During the year, considering the scarcity and the value of properties in central business districts of Shanghai, and in order to expand the portfolio of scarce properties held by the Group, the management change its plan and transferred all the unsold floor storeys of SRE Financial Centre from property held for sale to investment property.

As at 31 December 2014, the Group's investment properties were valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("Jones Lang LaSalle"), an independent professionally qualified property valuer and consultant. The valuations were performed based on the income approach (term and reversion method or direct capitalisation method) or direct comparison approach for those investment properties. The following significant unobservable inputs have been used:

Yield	**2014**	**2013**
Shanghai Oasis Central Ring Centre – Office	4%-4.5%	4%-4.5%
Shanghai Oasis Central Ring Centre – Shopping Mall	6%-6.5%	6%-6.5%
Shenyang Richgate Shopping Mall	5%-6%	5%-6%
Shanghai Shuocheng Supermarket	5%-5.5%	5%-5.5%
SRE Financial Centre	*	–

* Direct Comparison Approach was adopted in the valuation of SRE Financial Centre.

The term and reversion method measures the fair value of the property by taking into account the rental income derived from the existing leases with due allowance for the reversionary income potential of the leases, which are then capitalised into the value at appropriate rates. The direct capitalisation method measures the fair value of the property by assuming a stabilised economic income capitalised by a market yield rate. The market yield was developed based on the research on the sales and rental evidences of the similar properties in the surrounding market and assuming the existing tenancy will be extended. A significant increase/(decrease) in the estimated market yield would result in a significant decrease/(increase) in the fair value of the investment properties.

The direct comparison approach measures the fair value of the property with reference to the sales transactions of the comparable properties as available in the market and the consideration of due adjustments for differences between the subject property and the comparable ones. The adjustments would reflect the differences in location, infrastructure availability, neighbourhood environment, and size of the properties in the determination of the adjusted price. A significant increase/(decrease) in the adjusted unit price of comparable properties would result in a significant increase/(decrease) in the fair value of the investment properties.

The Group's investment properties are all situated in Mainland China and are held under medium-term (less than 50 years but not less than 10 years) leases.

As at 31 December 2014, the Group's investment properties of approximately HK$6,488 million (2013: HK$5,194 million) were pledged as collateral for the Group's bank loans and facilities *(Note 30).*

The following amounts relating to the investment properties have been recognised in profit or loss:

	2014	**2013**
Rental income *(Note 5)*	115,685	96,596
Direct operating expenses arising from investment properties that generate rental income	(25,567)	(30,300)
Gain from increase in fair value *(Note 6)*	993,326	166,291

19. PREPAID LAND LEASE PAYMENTS

GROUP

	2014	**2013**
In Mainland China, held on:		
– Leases of over 50 years	7,032,871	8,356,624
– Leases of between 10 and 50 years	5,293,346	3,081,766
	12,326,217	11,438,390

The Group's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	2014	**2013**
At beginning of year	11,438,390	11,401,950
Additions	1,263,119	227,838
Transfer to investment properties *(Note 18)*	(37,817)	(6,891)
Amortisation capitalised as properties under development for sale	(202,150)	(244,410)
Disposals with the sale of completed properties	(106,899)	(289,140)
Disposals of property, plant and equipment	(3,297)	–
Amortisation provided during the year	(4,477)	(4,451)
Exchange realignment	(20,652)	353,494
At end of year	12,326,217	11,438,390
Analysed as:		
Non-current: In relation to properties classified under property, plant and equipment	133,023	137,806
Current: In relation to properties held or under development for sale	12,193,194	11,300,584
	12,326,217	11,438,390

As at 31 December 2014, the Group's leasehold land of approximately HK$7,711 million (2013: HK$8,718 million) was pledged as collateral for the Group's bank loans and facilities *(Note 30)*.

20. GOODWILL

GROUP

	2014	2013
Cost		
At beginning of year	726,100	703,947
Acquisition of subsidiaries *(Note 41)*	14,729	–
Disposal of subsidiaries *(Note 42)*	(14,668)	–
Exchange realignment	(2,550)	22,153
At end of year	723,611	726,100
Accumulated impairment		
At beginning of year	74,792	55,548
Impairment losses recognised *(Note 6)*	79,398	17,206
Exchange realignment	92	2,038
At end of year	154,282	74,792
Net carrying amount		
Balance, end of year	569,329	651,308
Balance, beginning of year	651,308	648,399

Impairment testing of goodwill

Goodwill acquired through certain business combinations has been mainly allocated to the following cash-generating units for impairment testing:

– Shenyang Albany Oasis Garden

– Richgate I

– Huating

These cash-generating units are parcels of land in the cities of Shenyang and Shanghai and properties currently under development on these parcels will be available for sale in the forthcoming one to four years.

The recoverable amounts of Shenyang Albany Oasis Garden, Richgate I and Huating property development project cash-generating units have been determined based on a value-in-use calculation using cash flow projections based on forecasts covering four-year, five-year and two-year periods respectively, approved by management. The pre-tax discount rates applied to the cash flow projections are 26.6% (2013: 20.5%), 11.3% (2013: 12.1%) and 32.4% (2013: 18.4%), respectively. Professional valuer, Jones Lang LaSalle, was engaged to assist the Group in determining the estimated values in use.

The cost of goodwill allocated to each of the major cash-generating units before impairment is as follows:

	2014	2013
Shenyang Albany Oasis Garden *(a)*	401,385	402,763
Richgate I	96,167	96,498
Huating	182,981	183,610
Lushan project *(b)*	6,230	6,251
Others	36,848	36,978
	723,611	726,100

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill with the assistance from Jones Lang LaSalle:

– Selling prices – The market prices of comparable properties nearby

– Construction costs – The estimated costs including infrastructure costs to complete the property development projects

– Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant cash-generating units

The values assigned to key assumptions are based on historical experiences, current market condition, approved budgets and forecasts, and are consistent with external information sources.

As at 31 December 2014, the Group assessed the impairment on goodwill and determined that the carrying amount of goodwill arising from the acquisition of Liaoning Gao Xiao Support Group Property Development Co., Ltd. ("Liaoning Gao Xiao") was higher than its recoverable amount. Considering the current market condition in Shenyang and the actual selling price of Shenyang Albany Oasis Garden (Phase II), the management estimated that the future cash flows that could be generated from the sale of this property (including the remaining of developed Phase II and the Phase III under development) would probably be reduced, resulting in the significant decrease of value-in-use. As a result, the Company provided an impairment loss of RMB58 million (approximately HK$73 million) in the Group's consolidated financial statements for the year ended 31 December 2014.

As at 31 December 2014, the Group assessed the impairment on goodwill and determined that the carrying amount of goodwill arising from the acquisition of Shanghai Lushan Real Estate Ltd. ("Lushan") was higher than its recoverable amount. Due to the increase of construction cost of the properties developed by Lushan ("Lushan project") in the current year, the amount of value-in-use of the cash-generating unit was below its carrying amount as of 31 December 2014. As a result, the Company provided an impairment loss of RMB5 million (approximately HK$6 million) in the Group's consolidated financial statements for the year ended 31 December 2014.

21. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES

(a) Investments in subsidiaries

COMPANY

	2014	2013
Unlisted equity interests, at cost	5,110,023	5,127,579

As at 31 December 2014, the Company had direct or indirect interests in the following principal subsidiaries:

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Indirectly held			
Sinopower Investment Limited	British Virgin Islands ("BVI") 1 October 1998	100%	–	US$52	US$50,000	Investment holding
Shanghai Xin Dong Industry Co., Ltd.	PRC/Mainland China 28 May 1993	–	98%	US$3,457,729	US$3,457,729	Property leasing and real estate agency
Shanghai Real Estate Property Management Co., Ltd.	PRC/Mainland China 1 September 1995	–	100%	RMB42,200,000	RMB42,200,000	Property management
Shanghai Oasis Garden Real Estate Co., Ltd.	PRC/Mainland China 29 September 1998	–	98.75%	US$19,600,000	US$19,600,000	Property development
Shanghai Wingo Infrastructure Co., Ltd.	PRC/Mainland China 4 August 1999	–	98.96%	US$20,000,000	US$20,000,000	Development of technology housing and provision of construction services
Shanghai Zhufu Property Development Co., Ltd.	PRC/Mainland China 11 August 2000	–	50.36%	RMB10,000,000	RMB10,000,000	Property development
Anderson Land (Shanghai) Ltd.	BVI 29 September 2001	–	52%	US$100	US$50,000	Investment holding
Shanghai Anderson Fuxing Land Co., Ltd.	PRC/Mainland China 16 April 2002	–	51.48%	US$20,000,000	US$20,000,000	Property development
Shanghai Hangtou Govern Real Estate Co., Ltd.	PRC/Mainland China 14 June 2002	–	98%	US$10,000,000	US$10,000,000	Property development
Shanghai Andong Real Estate Development Ltd.	PRC/Mainland China 18 October 2007	–	99%	RMB370,000,000	RMB370,000,000	Property development
Shanghai Jinwu Real Estate Co., Ltd.	PRC/Mainland China 12 August 2002	–	95.79%	US$54,962,000	US$54,962,000	Property development and property leasing
Shanghai Jinxin Real Estate Co., Ltd.	PRC/Mainland China 28 October 2002	–	100%	RMB700,000,000	RMB700,000,000	Property development
Shanghai Skyway Hotel Co., Ltd.	PRC/Mainland China 9 December 2002	–	55.42%	RMB200,000,000	RMB200,000,000	Hotel operations
Shenyang Huarui Shiji Asset Management Co., Ltd. ("Huarui Asset Management") (i)	PRC/Mainland China 30 October 2007	–	100%	US$31,936,200	US$31,936,200	Property leasing
Shanghai Shuo Cheng Real Estate Co., Ltd.	PRC/Mainland China 29 January 2003	–	100%	RMB450,000,000	RMB450,000,000	Property development

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest Held by the Company	Proportion of ownership interest Indirectly held	Issued and paid-up capital	Authorised share capital	Principal activities
Shanghai Shangzhi Real Estate Development Co., Ltd.	PRC/Mainland China 16 October 2008	–	98.75%	RMB10,000,000	RMB10,000,000	Property development
Liaoning Gao Xiao Support Group Property Development Co., Ltd. ("Liaoning Gao Xiao")	PRC/Mainland China 4 December 2000	–	97.5%	RMB750,000,000	RMB750,000,000	Property development
Haikou Century Harbour City Co., Ltd. ("Haikou Century")	PRC/Mainland China 25 June 2008	–	79%	RMB220,000,000	RMB220,000,000	Property development
Shenyang Lukang Real Estate Ltd.	PRC/Mainland China 13 July 2007	–	98.95%	US$31,250,000	US$31,250,000	Property development
Haikou Century Richgate Business Administration Co., Ltd.	PRC/Mainland China 20 October 2008	–	100%	US$300,000	US$300,000	Hotel administration
Shanghai Lushan Real Estate Ltd.	PRC/Mainland China 4 August 2004	–	27.70%	RMB11,110,000	RMB11,110,000	Property development
Shanghai Xiangdao Real Estate Ltd.	PRC/Mainland China 21 July 2009	–	98.75%	RMB330,000,000	RMB330,000,000	Property development
Shanghai Xiabo Industry Ltd.	PRC/Mainland China 14 September 1995	–	98.75%	RMB3,000,000	RMB3,000,000	Property development
Shanghai Haibo Property Development Co., Ltd.	PRC/Mainland China 27 December 1996	–	98.75%	RMB15,000,000	RMB15,000,000	Property development
Shanghai Bairun Real Estate Co., Ltd. ("Bairun")	PRC/Mainland China 16 May 2002	–	50.36%	RMB605,500,000	RMB605,500,000	Property development
Wuxi Zhongqing Real Estate Co., Ltd.	PRC/Mainland China 11 July 2008	–	98.75%	RMB85,000,000	RMB85,000,000	Property development
Wuxi Yongqing Real Estate Co., Ltd. ("Wuxi Yongqing")	PRC/Mainland China 27 January 2007	–	98.75%	RMB20,000,000	RMB20,000,000	Property development
Jiaxing Lake Richgate Real Estate Co., Ltd.	PRC/Mainland China 26 September 2007	–	98.75%	US$49,900,000	US$49,900,000	Property development
Shanghai Zhiyi Enterprise Ltd.	PRC/Mainland China 14 March 2011	–	98.96%	RMB30,000,000	RMB30,000,000	Procurement management
Shanghai Lake Malaren Property Management Co., Ltd.	PRC/Mainland China 23 June 2005	–	100%	RMB5,000,000	RMB5,000,000	Property management
Shanghai Qian Ying Finance Service Co., Ltd. (*)	PRC/Mainland China 26 Nov 2012	–	98.96%	RMB5,000,000	RMB5,000,000	Procurement management
Dalian Shangzhi Real Estate Development Co., Ltd.	PRC/Mainland China 19 July 2013	–	50.36%	RMB30,000,000	RMB30,000,000	Property development

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Indirectly held			
Shanghai Dinan Real Estate Development Ltd. (**)	PRC/Mainland China 5 August 2014	–	98.75%	RMB30,000,000	RMB30,000,000	Property development
Shanghai Xiang Zhi Investment Ltd. (**)	PRC/Mainland China 11 June 2014	–	98.75%	RMB100,000,000	RMB100,000,000	Investment
Shanghai Zhi Yi Investment Ltd. (**)	PRC/Mainland China 21 January 2014	–	98.96%	RMB100,000,000	RMB790,000,000	Investment

(*) Shanghai Qian Ying Finance Service Co., Ltd. was previously named as Shanghai Zhihui Construction Co., Ltd.

(**) Newly established subsidiaries in the current year

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

Other than disclosed above, the Company has several investment holding subsidiaries incorporated in the BVI or Hong Kong with nominal issued shares. All subsidiaries located in Mainland China are limited liability entities.

Details of the Group's subsidiary that has material non-controlling interest are set out below:

	2014	2013
Percentage of equity interest held by non-controlling interest:		
Skyway	44.58%	44.00%
Profit/(loss) for the year allocated to non-controlling interest:		
Skyway	258,301	(18,998)
Accumulated balance of non-controlling interests at the reporting dates:		
Skyway	96,288	(161,033)

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

Skyway	**2014**	**2013**
Revenue	379,109	351,810
Total expense	406,579	350,438
Other Gain	1,016,241	1,535
Profit/(loss) for the year	579,396	(43,178)
Total comprehensive income/(loss) for the year	579,396	(43,178)
Current assets	42,108	624,803
Non-current assets	2,335,340	897,471
Current liabilities	60,831	124,718
Non-current liabilities	2,100,633	1,763,539
Net cash flows used in operating activities	(22,010)	(372,023)
Net cash flows used in investing activities	(1,067)	(2,429)
Net cash flow from financing activities	13,604	374,759
Effect of foreign exchange rate changes, net	(137)	821
Net (decrease)/increase in cash and cash equivalents	(9,610)	1,128

(b) Advances to subsidiaries

COMPANY

All the advances to subsidiaries as at 31 December 2014 and 2013 were unsecured, interest-free and had no fixed repayment terms.

22. INVESTMENTS IN ASSOCIATES

GROUP

	2014	**2013**
Unlisted equity interests		
Share of net assets	57,512	75,939
Less: Provision for impairment	–	–
	57,512	75,939

As at the 31 December 2014, the Company had indirect interests in the following principal associates:

Name	Place and date of incorporation or establishment and business	Proportion of ownership interest		Issued and paid-up capital	Authorised share capital	Principal activities
		Held by the Company	Indirectly held			
Shanghai Housing Industry New Technology Development Co., Ltd. ("New Technology")	PRC//Mainland China 6 May 1997	–	26%**	RMB50,000,000	RMB50,000,000	Research and development of housing technology
Shanghai Telecom Broadband Networking Co., Ltd. ("Broadband")	PRC/Mainland China 24 October 2000	–	19.80%*	RMB100,000,000	RMB100,000,000	Development and sale of netware and construction of broadband fibre projects

* The Group considered that it is able to exercise significant influence over Broadband through its non-wholly-owned subsidiary which holds a 20% equity interest in Broadband.

** New Technology reduced its capital from RMB100 million to RMB50 million in the current year, as a result, RMB13 million was returned to the Group with the proportion of equity share of 26% unchanged.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

The financial year end dates of the above associates are coterminous with that of the Group.

The Group's shareholdings in the associates comprise equity shares held through certain wholly-owned subsidiaries and non-wholly-owned subsidiaries of the Company. All the above associates have been accounted for using the equity method in the consolidated financial statements.

Extracts of financial information of principal associates

The following tables illustrate the financial information of the Group's principal associates as extracted from their financial statements:

(1) Broadband

	2014	2013
Current assets	167,050	180,721
Non-current assets	55,161	56,640
Current liabilities	(41,399)	(43,255)
Net assets	180,812	194,106
Revenue	128,394	145,053
Profit after tax	1,125	17,165
Total comprehensive income for the year	1,125	17,165
Dividend received	3,111	7,800

(2) New Technology

	2014	2013
Current assets	41,481	99,222
Non-current assets	35,836	35,808
Current liabilities	(4,850)	(3,400)
Net assets	72,467	131,630
Revenue	4,634	4,439
Profit after tax	4,647	5,432
Total comprehensive income for the year	4,647	5,432
Dividend received	–	–

23. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE

GROUP

	2014	2013
At cost		
– In Shanghai City, PRC	5,888,666	5,015,441
– In Shenyang City, PRC	2,013,990	1,396,608
– In Wuxi City, PRC	353,003	356,103
– In Jiaxing City, PRC	984,606	1,113,850
– In Haikou City, PRC	93,118	109,136
– In Dalian City, PRC	34,269	–
	9,367,652	7,991,138

GROUP

	2014	2013
Properties held or under development expected to be completed		
– Within one year	4,183,162	4,041,853
– After one year	5,184,490	3,949,285
	9,367,652	7,991,138

As at 31 December 2014 and 2013, certain of the Group's properties held or under development for sale had been pledged as collateral for the Group's bank loans and facilities (see Note 30).

24. PREPAYMENTS AND OTHER CURRENT ASSETS

	Group		Company	
	2014	**2013**	**2014**	**2013**
Non-current				
Prepayment *(a)*	6,338	6,360	–	–
Current				
Prepaid business tax	67,448	41,393	–	–
Prepayments *(b)*	1,313,159	75,372	–	–
Prepaid relocation compensation to a local government authority *(c)*	1,977,437	1,017,553	–	–
Others	14,575	11,022	7,487	2,881
	3,372,619	1,145,340	7,487	2,881

(a) On 12 December 2013, the Company signed a letter of intent with a third party (the "Vendor") to acquire 100% equity interest in a real estate company in Shanghai for a total consideration of RMB800 million (HK$1,018 million). In connection with this transaction, the Group paid RMB5 million (equivalent to HK$6 million) to the Vendor as earnest money. Due diligence for this project has been completed and it is now pending upon the local government's approval.

(b) The prepayments as at 31 December 2014 mainly included approximately HK$701 million (2013: HK$50 million) of prepayments for properties under development, HK$607 million (2013: nil) of prepayments for leasehold land.

(c) The balance as at 31 December 2014 represented a prepayment of RMB1,560 million (approximately HK$1,977 million) (2013: RMB800 million (approximately HK$1,018 million)) to a local government authority as prepaid relocation compensation of Richgate I project in Shanghai.

25. OTHER RECEIVABLES

GROUP

	2014	**2013**
Receivables in connection with acquisition of Konmen Investment Limited *(a)*	183,427	185,090
Receivable from a disposed subsidiary	2,535	–
Receivables due from a former subsidiary *(b)*	–	139,914
Deposit for a real estate project	12,676	12,719
Relocation compensation receivable from the government	–	32,267
Deposit for land bidding	–	20,351
Interest receivable	62,460	30,769
Others	130,692	85,387
	391,790	506,497
Less: Provision for impairment	(2,672)	(2,681)
Other receivables, net	389,118	503,816

(a) On 17 August 2007, SRE Investment Holding Limited ("SREI", or the "Vendor") and an independent third party (the "Original Shareholder") entered into an acquisition agreement (the "Vendor Acquisition Agreement"), pursuant to which the Vendor agreed to purchase, from the Original Shareholder, the entire issued share capital (the "Sale Share") of Konmen, which held a 70% interest in Liaoning Gao Xiao, at a consideration of HK$1,600 million.

On the same date, the Vendor and a subsidiary of the Company (the "Purchaser") entered into an acquisition agreement (the "Acquisition Agreement"), pursuant to which the Purchaser agreed to purchase the Sale Share from the Vendor at a consideration of HK$1,600 million. Pursuant to the Acquisition Agreement, the consideration was satisfied by the Company issuing shares to the Vendor.

On 15 November 2007, a supplemental agreement was entered into between the Vendor, the Company, the Purchaser, the Original Shareholder and Konmen.

According to the above agreements, the Original Shareholder agreed to pay for the purchase of land use right that will be held by Liaoning Gao Xiao, to bear certain liabilities ("the Liabilities") of Liaoning Gao Xiao and to reimburse Liaoning Gao Xiao the relevant amounts incurred in respect of the Liabilities, to the extent that they have not been paid for by the Original Shareholder and/or the other shareholder who holds the remaining 30% equity interest in Liaoning Gao Xiao. If the amounts reimbursed by the Original Shareholder under such arrangements are made to the Vendor, the Vendor agreed to transfer such amounts to the Group.

Pursuant to the above agreements, the Vendor has also undertaken to pay Liaoning Gao Xiao the above-mentioned amounts, to the extent they have not been paid for by the Original Shareholder and/or the other shareholder who holds the remaining 30% equity interest in Liaoning Gao Xiao. In the event that Liaoning Gao Xiao failed to obtain the relevant land use right by 30 June 2009, the Vendor would undertake to pay the Company HK$1,600 million in cash on or before 30 December 2009. On 4 December 2009, the Special General Meeting of the Company passed a resolution that the Company shall not exercise its right under the above agreements and shall delay enforcement against the Vendor to 31 December 2012. In early 2013, the Group received from the Vendor the full settlement of the Land Purchase Cost and Liaoning Gao Xiao has consequently obtained the land use rights certificates for the entire site area of the Land.

As of 31 December 2014, the amount which would have to be reimbursed from the Vendor according to the agreements above, as such amount has not been paid for by the Original Shareholder or the Original Minority Shareholder, was approximately RMB145 million (approximately HK$183 million) (2013: approximately RMB145 million (approximately HK$185 million)).

(b) The other receivables balance as at 31 December 2013 represented a receivable of RMB110 million from a former subsidiary, arising from intra-group transactions between the former subsidiary and other subsidiaries of the Group before the Group disposed of the former subsidiary in 2012. Such amounts were fully settled in the current year.

26. TRADE RECEIVABLES

GROUP

	2014	**2013**
Trade receivables	57,498	45,680
Less: Provision for impairment	(10,142)	(10,177)
	47,356	35,503

An aged analysis of trade receivables as at the end of the reporting period, from the date when they were recognised, is as follows:

	2014	2013
Within 6 months	37,164	26,176
6 months to 1 year	1,632	379
1 to 2 years	1,019	7,913
Over 2 years	17,683	11,212
	57,498	45,680

The Group's sales of development properties and hotel operations are generally on a cash basis while the Group's trading terms with its customers for other operations are mainly on credit. The credit terms of the Group are generally within six months.

The Group's other trade receivables are related to a large number of diversified customers. There is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of trade receivables neither past due nor impaired and those past due but not impaired is as follows:

	2014	2013
Neither past due nor impaired	41,343	31,702
Past due but not impaired:		
Within 30 days	280	130
30 to 60 days	–	1,954
60 to 90 days	551	–
Over 120 days	5,182	1,717
	47,356	35,503

Receivables that were past due but not impaired are related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The movements in the provision for impairment of trade receivables are as follows:

	2014	2013
At beginning of year	10,177	10,617
Reversal of impairment	–	(773)
Exchange realignment	(35)	333
At end of year	10,142	10,177

No provision for impairment of trade receivables (2013: HK$773 thousand) was reversed during the year ended 31 December 2014.

27. CASH AND BANK BALANCES

	Group		Company	
	2014	**2013**	**2014**	**2013**
Cash on hand	2,623	2,719	19	28
Demand and notice deposits	569,556	1,379,501	58,467	56,670
Cash and cash equivalents	572,179	1,382,220	58,486	56,698
Time deposits with original maturity of more than three months	–	2,544	–	–
Pledged bank deposits *(a)*	1,501,711	1,538,293	–	–
Restricted bank deposits under a development project *(b)*	2,044	9,180	–	–
Restricted bank deposits relating to bank borrowings *(c)*	33,063	8,859	–	–
Cash and bank balances	2,108,997	2,941,096	58,486	56,698

(a) As at 31 December 2014, bank deposits of approximately HK$1,502 million (2013: HK$1,538 million) were pledged as securities for bank borrowings *(Note 30).*

(b) The balance represented deposits that are restricted from use, as a result of the guarantees provided by the Group in respect of the mortgage facilities granted by certain banks to certain purchasers of the Group's properties.

(c) An amount of HK$33 million (2013: HK$9 million) is restricted in connection with bank borrowings.

The carrying amounts of the cash and bank balances which are denominated in the following currencies are:

	Group		Company	
	2014	**2013**	**2014**	**2013**
Hong Kong dollars	36,755	55,901	36,731	55,847
United States dollars	16,032	6,823	12,190	822
Singapore dollars	1	1	1	1
Australia dollars	9,545	73,968	9,545	–
RMB	2,046,664	2,804,403	19	28
	2,108,997	2,941,096	58,486	56,698

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Demand deposits earn interest at floating rates based on daily bank deposit rates. Notice deposits are made for varying periods of between one day and seven days depending on the immediate cash requirements of the Group, and earn interest at the respective notice deposit rates. Time deposits earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents pledged and restricted deposits approximate to their fair values.

28. ISSUED SHARE CAPITAL AND PREMIUM

GROUP AND COMPANY

		Amount		
	Number of shares (thousands)	**Issued capital**	**Share premium**	**Total**
At 1 January 2013, 31 December 2013 and 2014	5,664,713	566,471	5,434,267	6,000,738

The total authorised number of ordinary shares is 8,000 million (2013: 8,000 million), each share with a par value of HK$0.10 (2013: HK$0.10). All issued shares are fully paid up.

No share options of the Company were outstanding as at 31 December 2014 and 2013.

29. RESERVES

(a) GROUP

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's entities which are established in Mainland China has been transferred to reserve funds which are restricted as to use.

Companies within the Group, most of which are registered in the PRC as foreign invested entities, are required to make appropriations from statutory net profits to the reserve fund and the enterprise expansion fund, upon distribution of their post-tax profits of the current year. The percentages to be appropriated to the reserve fund and the enterprise expansion fund are determined by the boards of directors of these companies.

Companies within the Group, which are registered in the PRC as domestic invested entities, are required to appropriate 10% of statutory net profits to the statutory surplus reserve, upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. Upon contribution to the statutory surplus reserve using its post-tax profit, a company may make further contribution to the surplus reserve using its post-tax profit in accordance with a resolution of the board of directors.

(b) COMPANY

	Exchange fluctuation reserve	Equity component of convertible bonds	Retained profits/ (accumulated losses)	Others	Total
Balance at 1 January 2014	1,254,059	2,810	4,900	179,875	1,441,644
Total comprehensive income for the year	(25,779)	–	(69,774)	–	(95,553)
Transfer upon the redemption of CB4	–	(2,810)	–	2,810	–
Balance at 31 December 2014	1,228,280	–	(64,874)	182,685	1,346,091

	Exchange fluctuation reserve	Equity component of convertible bonds	Retained profits	Others	Total
Balance at 1 January 2013	1,026,466	2,810	6,861	179,875	1,216,012
Total comprehensive income for the year	227,593	–	58,085	–	285,678
Proposed final 2013 dividend	–	–	(60,046)	–	(60,046)
Balance at 31 December 2013	1,254,059	2,810	4,900	179,875	1,441,644

30. INTEREST-BEARING BANK AND OTHER BORROWINGS

GROUP AND COMPANY

	Group		Company	
	2014	2013	2014	2013
Short-term bank borrowings				
– Secured	602,472	494,276	–	–
Other short-term borrowings				
– Secured	938,040	–	–	–
– Unsecured	330,295	422,920	–	–
Current portion of long-term bank borrowings				
– Secured	2,339,345	1,593,376	1,234,048	1,193,986
Current portion of other long-term borrowings				
– Secured	3,019,017	2,811,890	–	–
Borrowings, current portion	7,229,169	5,322,462	1,234,048	1,193,986
Long-term bank borrowings				
– Secured	10,295,570	9,208,479	179,992	216,385
Other long-term borrowings				
– Secured	1,876,030	915,798	–	–
– Unsecured	193,403	109,663	193,403	109,663
Borrowings, non-current portion	12,365,003	10,233,940	373,395	326,048
The long-term borrowings are repayable as follows:				
– Within 1 year	5,358,362	4,405,266	1,234,048	1,193,986
– 1 to 2 years	3,220,608	1,642,026	179,992	18,006
– 2 to 3 years	2,360,110	1,232,111	–	198,379
– 3 to 5 years	5,794,768	6,164,845	–	–
– After 5 years	989,517	1,194,958	193,403	109,663
	17,723,365	14,639,206	1,607,443	1,520,034
Less: Long-term borrowings, current portion	(5,358,362)	(4,405,266)	(1,234,048)	(1,193,986)
Long-term borrowings, non-current portion	12,365,003	10,233,940	373,395	326,048

Short-term bank borrowings – secured

As at 31 December 2014, short-term bank borrowings of approximately HK$602 million (2013: approximately HK$494 million) was secured by the pledge of bank deposits, leasehold land, properties held or under development for sale and investment properties. Among the above short-term bank borrowings, bank loans with a total principal of HK$40 million were guaranteed by Mr. Shi Jian, the Chairman of the Company, and Md. Si Xiao Dong, the spouse of Mr. Shi Jian.

Other short-term borrowings – secured

As at 31 December 2014, other short-term borrowings of approximately HK$938 million (2013: Nil) were secured by the pledges of the Group's leasehold land and an equity interest of a subsidiary.

Long-term bank borrowings – secured

As at 31 December 2014, long-term bank borrowings of approximately HK$12,635 million (2013: approximately HK$10,802 million) were secured by the pledges of the Group's leasehold land, together with bank deposits, property, plant and equipment, investment properties, properties held or under development for sale and equity interests of subsidiaries. Among the above long-term bank borrowings, a bank loan with a principal of HK$220 million was secured by the pledge of a private property held by Mr. Shi Jian and Md. Si Xiao Dong. A bank loan with a principal of HK$692 million was guaranteed by Mr. Shi Jian, and Md. Si Xiao Dong.

Other long-term borrowings – secured

As at 31 December 2014, long-term borrowings of approximately HK$4,895 million (2013: approximately HK$3,728 million) were from third party trust funds which are secured by the pledges of the Group's leasehold land, properties held or under development for sale, and equity interests in certain subsidiaries of the Group and entitlement to certain economic benefits (including right to dividends, if any, etc.) in such equity interests. The Group has the right to repay the loans (the outstanding balances of principal and interest thereon) in full, at any time or during specified periods prior to expiry of the terms of the loans. Among the above other long-term borrowings, a term loan with a principal of HK$1,838 million was guaranteed by SREI and Mr. Shi Jian, and another term loan with a principal of HK$634 million was guaranteed by Mr. Shi Jian.

Overall collateral arrangements for bank and other borrowings

As at 31 December 2014, bank deposits of approximately HK$1,502 million (2013: approximately HK$1,538 million) (Note 27), leasehold land of approximately HK$7,711 million (2013: approximately HK$8,718 million) (see Note 19), investment properties of approximately HK$6,488 million (2013: approximately HK$5,194 million) (Note 18), properties held or under development for sale of approximately HK$6,822 million (2013: approximately HK$5,113 million), property, plant and equipment of approximately HK$1,668 million (2013: approximately HK$1,309 million) (see Note 17) and equity interests in certain subsidiaries with total costs of approximately HK$3,181 million (2013: approximately HK$5,621 million) were pledged as collateral for the Group's borrowings and banking facilities.

The weighted average effective interest rates for these borrowings at the end of the reporting period were as follows:

	2014			2013		
	HK$	**US$**	**RMB**	**HK$**	**US$**	**RMB**
Short-term bank borrowings	–	–	6.60%	–	–	6.08%
Other short-term borrowings	–	–	10.76%	–	–	7.80%
Long-term bank borrowings	2.81%	1.37%	7.12%	2.17%	1.40%	6.88%
Other long-term borrowings	8.16%	–	12.17%	8.16%	–	13.22%

As bank loans are all borrowed at prevailing market interest rates, which would be adjusted from time to time in line with interest rate changes in the market, the carrying amounts of the bank loans approximate to their fair values.

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2014	**2013**	**2014**	**2013**
Hong Kong dollars	1,033,472	946,172	1,033,472	946,172
United States dollars	573,971	573,862	573,971	573,862
RMB	17,986,729	14,036,368	–	–
	19,594,172	15,556,402	1,607,443	1,520,034

The Group had the following undrawn credit facilities as at the end of the reporting period:

	2014	**2013**
Floating rate loan facilities		
– expiring within one year	31,690	195,332
– expiring beyond one year	616,290	1,064,615
	647,980	1,259,947

31. AVAILABLE-FOR-SALE INVESTMENTS

GROUP

	2014	**2013**
Unlisted equity investment, at cost	12,676	–

The above investment represents the investment in an unlisted company in Mainland China.

32. DEFERRED TAX

GROUP

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes, if any, levied by the same tax authority on the same taxable entity.

The gross movements in the deferred tax account are as follows:

	2014	**2013**
At beginning of year	1,433,499	1,366,686
Recognised in profit or loss *(Note 12)*	330,461	23,526
Exchange realignment	(3,440)	43,287
At end of year	1,760,520	1,433,499

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

Deferred tax assets

	Tax losses carried forward	Difference in accounting and tax bases arising from share transfer consideration	Other temporary differences	Total
At 1 January 2013	208,000	299,329	26,287	533,616
Recognised in profit or loss	(58,058)	–	18,588	(39,470)
Exchange realignment	5,671	1,639	8,868	16,178
At 31 December 2013	155,613	300,968	53,743	510,324
Recognised in profit or loss	(130,923)	–	17,182	(113,741)
Exchange realignment	(1,113)	(184)	(954)	(2,251)
At 31 December 2014	23,577	300,784	69,971	394,332

Deferred tax liabilities

	Fair value gains	Excess of fair value over book value in the subsidiaries as a result of business combination	Withholding taxes	Others	Total
At 1 January 2013	662,103	602,000	379,658	256,541	1,900,302
Recognised in profit or loss	41,032	(17,565)	10,786	(50,197)	(15,944)
Exchange realignment	21,413	18,652	12,088	7,312	59,465
At 31 December 2013	724,548	603,087	402,532	213,656	1,943,823
Recognised in profit or loss	249,149	(11,530)	(8,093)	(12,806)	216,720
Exchange realignment	(1,382)	(2,108)	(1,413)	(788)	(5,691)
At 31 December 2014	972,315	589,449	393,026	200,062	2,154,852

As at 31 December 2014, the deferred tax asset arising from unused tax losses amounted to approximately HK$24 million (2013: HK$156 million). With respect to the recognition of the deferred tax assets, after considering the evidence including the approval from local authorities permitting the sales of the properties, and estimated future taxable profit by reference to recent selling prices of certain properties and current market condition, the Group believes that sufficient taxable profit will be available against which the unused tax losses can be utilised in the foreseeable future.

Deferred tax assets have not been recognised in respect of the following items:

	2014	2013
Tax losses	1,309,413	673,782

The above tax losses arising in Mainland China for offsetting against future taxable profit will expire in one to five years. Deferred tax assets have not been recognised in respect of the tax losses mentioned above as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which these temporary differences can be utilised.

Pursuant to the resolution of the board of directors of the Company, part of PRC subsidiaries' profits generated from 2011 onwards will be retained by PRC subsidiaries for use in future operations or investments. In the opinion of the directors, it is probable that the temporary differences relating to the profits that are not expected to be distributed will not be reversed in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$940 million (2013: approximately HK$979 million).

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

33. CONVERTIBLE BONDS

GROUP AND COMPANY

The carrying value of the host debt components of the convertible bonds as at the end of the reporting period was as follows:

	2014	2013
Convertible Bonds 4 – host debt	–	8,332

On 23 July 2009, the Company issued Convertible Bonds 4 (the "CB4"), maturing on 23 July 2014, in the aggregate principal amount of RMB446.9 million with an initial conversion price of HK$1.056 per share at a fixed exchange rate applicable to the conversion of RMB0.8818 = HK$1.00 per ordinary share of the Company. The CB4 bear interest at the coupon rate of 6% per annum, and are payable semi-annually in arrears. The bondholders can convert the CB4 to ordinary shares of the Company at any time after 41 days from the 23 July 2009 to 10 business days before maturity. On 23 July 2012, the bondholders have the right (the "Put Option") to require the Company to redeem all or some of the CB4 at a redemption price equal to 100% of their principal amount, together with unpaid accrued interest. The Company also had the option to redeem, at an amount at 100% of the principal amount, all of the CB4 if at least 90% in the principal amount of the CB4 originally issued have already been converted, redeemed or purchased and cancelled before 30 days prior to its maturity date.

On 24 July 2009, the CB4 were listed on the HKEx.

The conversion option embedded in the CB4 meets the definition of equity instruments of the Company, and therefore it is classified as equity and presented separately from the liability component of the convertible bonds. The liability component is initially recognised at its fair value, net of transaction costs allocated to the liability component, and is subsequently measured at amortised cost.

On 23 July 2012, an aggregate principal amount of RMB440 million (approximately HK$541 million) was redeemed due to the exercise of the Put Option by the bondholders. As a result, the redeemed portion of CB4's liability component was derecognised, and the resulting gain of HK$7 million, i.e., the difference between the portion of the redemption price of RMB434 million (approximately HK$534 million) allocated to the liability component and their carrying amount of RMB440 million (approximately HK$541 million), was recognised in profit or loss, while the portion of the redemption price of RMB6 million (approximately

HK$7 million) allocated to equity component was recognised in equity. Meanwhile, HK$169 million, portion of the equity component of the CB4 relating to the redeemed part of the CB4, was transferred from the equity component of the convertible bonds to other reserves.

On 23 July 2014, the remaining portion of the CB4 with a face value of RMB7 million (approximately HK$9 million) was redeemed. Meanwhile, HK$2,810 thousand, portion of the equity component of the CB4 relating to the redeemed part of the CB4, was transferred from the equity component of the convertible bonds to other reserves.

There was no outstanding balance for the CB4 as at 31 December 2014. The movements in the host debt component of the CB4 for the year were as follow:

	2014	**2013**
Host debt component at beginning of year	8,332	7,183
Interest expense *(Note 9)*	872	1,429
Payment of interest	(305)	(519)
Redemption	(8,813)	–
Exchange realignment	(86)	239
Host debt component at end of year	–	8,332

Interest expenses on the CB4 are calculated using the effective interest method by applying the effective interest rate of 19.93% per annum to the host debt component.

34. OTHER NON-CURRENT ASSETS

GROUP

	2014	**2013**
Other receivables *(a)*	17,746	–
Others *(b)*	16,479	–
	34,225	–

(a) As at 31 December 2014, the amount represented the cash consideration for disposal of a subsidiary (Note 42). The amount will be settled by the original shareholders within five years.

(b) As at 31 December 2014, the amount represented the non-cash consideration for disposal of a subsidiary (Note 42). The amount will be settled by future purchase of inventories from the former subsidiary within five years.

35. ADVANCES RECEIVED FROM THE PRE-SALE OF PROPERTIES UNDER DEVELOPMENT

GROUP

	2014	**2013**
Advances received from the pre-sale of properties under development	1,542,255	1,177,218

The Group conducts the pre-sale of properties when they are still under development. As contracted with customers, advances amounting to a substantial portion of sales consideration are paid to the Group shortly from the signing of the pre-sales contract. Such amounts held by the Group are non-interest-bearing. Business tax, generally calculated at a rate of 5% on the advances received, is imposed by the tax authorities.

36. TRADE PAYABLES

GROUP

An aged analysis of the trade payables as at the end of the reporting period, from the date when they were incurred, is as follows:

	2014	2013
Within 1 year	1,426,815	1,169,764
1 to 2 years	371,478	433,290
Over 2 years	337,344	200,989
	2,135,637	1,804,043

Trade payables represent payables arising from property construction and land development. The trade payables are non-interest-bearing and are normally settled within one year.

37. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2014	2013	2014	2013
Deposits received from and other payable to customers and construction companies	50,676	104,192	–	–
Business tax and surtaxes payable	44,464	44,141	–	–
Interest payable to a former non-controlling shareholder of a subsidiary	1,193	6,285	–	–
Payable to a non-controlling shareholder	–	10,621	–	–
Dividends payable to non-controlling shareholders of subsidiaries	42,270	42,417	–	–
Relocation costs payable	335,469	2,235	–	–
Deposits from stores, rents received for developers and public utility fees collected and paid for tenants	56,779	50,264	–	–
Payroll and welfare payable	9,324	10,810	–	–
Accrued interest	46,649	11,834	–	875
Payables to former shareholders of a subsidiary for business combination	12,929	19,434	–	–
Payables to former shareholders of subsidiaries for acquisition of non-controlling interests	21,803	21,623	–	–
Payable to the former non-controlling shareholder of a subsidiary disposed of	25,352	25,439	–	–
Advance received in relation to a potential borrowing	–	10,000	–	10,000
Others	74,621	61,726	1,459	1,457
	721,529	421,021	1,459	12,332

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit before tax to cash used in operations:

	2014	2013
Profit before tax	567,875	499,739
Adjustments for:		
Depreciation of items of property, plant and equipment	50,468	48,732
Amortisation of intangible assets	266	–
Reversal of impairment of receivables	–	(817)
(Gain)/loss on disposal of items of property, plant and equipment, net	(43,079)	2,407
Share of profits of associates	(1,431)	(4,846)
Fair value gain on investment properties	(993,326)	(166,291)
Impairment of goodwill	79,398	17,206
Gain on disposal of subsidiaries	(1,662)	–
Finance income	(99,204)	(87,455)
Finance costs	456,753	352,117
	16,058	660,792
Decrease in restricted bank deposits	7,136	998
(Increase)/decrease in prepaid land lease payments	(960,697)	310,166
Increase in properties held or under development for sale	(796,051)	(214,931)
Increase in inventories	(19,625)	(225)
Increase in prepayments and other current assets	(2,218,161)	(950,273)
Decrease in other receivables	46,245	160,240
Increase in trade receivables	(10,890)	(3,353)
Increase/(decrease) in trade payables	250,059	(586,757)
Increase/(decrease) in other payables and accruals	331,781	(473,002)
Increase/(decrease) in advances received from the pre-sale of properties under development	367,741	(360,302)
Cash used in operations	(2,986,404)	(1,456,647)

39. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms mainly ranging from 1 to 20 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2014, the Group had total future minimum lease receivables under operating leases with its tenants falling due as follows:

GROUP

	2014	2013
Within one year	107,024	96,361
In the second to fifth years, inclusive	317,412	285,128
After five years	434,962	475,837
	859,398	857,326

The rental income that is contingent upon business of lessee that was recognised in 2014 amounted to HK$9,330 thousand (2013: HK$14,744 thousand).

(b) As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms mainly ranging from one to five years, and those for office equipment are for terms mainly ranging between two and five years.

At 31 December 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

GROUP

	2014	**2013**
Within one year	4,161	4,310
In the second to fifth years, inclusive	2,089	5,995
	6,250	10,305

COMPANY

	2014	**2013**
Within one year	3,569	3,522
In the second to fifth years, inclusive	1,784	5,283
	5,353	8,805

40. COMMITMENTS AND CONTINGENCIES

(a) The Group and the Company had the following capital commitments and commitments in respect of property development for sale at the end of the reporting period:

	Group		**Company**	
	2014	**2013**	**2014**	**2013**
Contracted, but not provided for				
Properties held or under development for sale	3,753,672	1,348,489	–	–
Property, plant and equipment and leasehold land	27,697	24,753	–	–
	3,781,369	1,373,242	–	–
Authorised, but not contracted for				
Properties held or under development for sale	805,955	399,324	–	–
Property, plant and equipment and leasehold land	87,515	19,215	–	–
	893,470	418,539	–	–
	4,674,839	1,791,781	–	–

(b) The Group provides guarantees in respect of the mortgage facilities granted by certain banks to certain purchasers of the Group's properties. Pursuant to the terms of the guarantee arrangements, in case of default on mortgage payments by the purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to the banks. The Group is then entitled to take over the legal titles of the related properties. The Group's guarantee periods commence from the dates when the relevant mortgage loans are granted and end when the purchasers pledge related property certificates as security to the banks offering the mortgage loans. The Group entered into guarantee contracts of principal amounts totalling approximately RMB111 million (equivalent to HK$140 million) (2013: RMB484 million (equivalent to HK$615 million)) and these contracts were still effective as at the close of business on 31 December 2014.

The Group did not incur any material losses during the financial year in respect of the guarantees provided for mortgage facilities granted to purchasers of the Group's properties. The Directors consider that the probability of default of purchasers is remote and even in case of default on payments, the net realisable value of the related properties is expected to be sufficient to cover the repayment of the outstanding mortgage loans together with any accrued interest and penalty, because the principal of each of the mortgage loans were normally below 70% of sales price of the properties at date of sales agreement, and therefore no provision has been made in connection with the guarantees.

41. BUSINESS COMBINATIONS

On 19 March 2014 and 14 March 2014, the Group entered into transactions with a third party to acquire a 56% equity interest in Shenzhen Boromax and a 89% equity interest in Shenzhen Happy Cube Internet Technology Co., Ltd. ("Happy Cube") respectively. Due to various challenges in managing these newly acquired subsidiaries, the Group amiably negotiated and disposed of these entities to the original owner after several months (Note 42). These transactions do not have a material impact on the results of the Group.

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

	19 March 2014
Property, plant and equipment *(Note 17)*	483
Other intangible assets *(Note 16)*	13,460
Trade receivables	5,405
Other receivables	11,706
Prepayments	1,786
Cash and bank balances	25,742
Inventories	6
Advances from customers	(975)
Trade payables	(1,710)
Other payables and accruals	(1,408)
Interest-bearing bank and other borrowings	(8,096)
Total identifiable net assets at fair value	46,399
Non-controlling interests	(20,622)
Goodwill on acquisition *(Note 20)*	14,729
Satisfied by cash	40,506

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

	2014
Cash consideration	40,506
Cash and bank balances acquired	(25,742)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	14,764

Had the combination taken place at the beginning of the year, there would be no significant impact on revenue or profit of the Group for the year.

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

	14 March 2014
Property, plant and equipment *(Note 17)*	11
Other intangible assets *(Note 16)*	3,265
Other receivables	48
Cash and bank balances	10,167
Other payables and accruals	(2,108)
Total identifiable net assets at fair value	11,383
Non-controlling interests	(1,256)
Satisfied by cash	10,127

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

	2014
Cash consideration	10,127
Cash and bank balances acquired	(10,167)
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(40)

Had the combination taken place at the beginning of the year, there would be no significant impact on revenue or profit of the Group for the year.

42. DISPOSAL OF SUBSIDIARIES

(a) On 18 September 2014, the Group disposed of its entire 56% equity interest in Shenzhen Boromax.

	18 September 2014
Net assets disposed of:	
Property, plant and equipment *(Note 17)*	4,644
Other intangible assets *(Note 16)*	13,703
Trade receivables	4,373
Other receivables	16,942
Prepayments	670
Cash and bank balances	335
Inventories	13,677
Advances from customers	(1,281)
Trade payables	(4,402)
Other payables and accruals	(3,927)
Interest-bearing bank and other borrowings	(1,535)
Goodwill *(Note 20)*	14,668
Non-controlling interests	(19,183)
	38,684
Gain on disposal of a subsidiary *(Note 6)*	1,654
	40,338
Satisfied by:	
Other receivables	20,169
Supply of inventories	20,169

50% of the consideration will be settled in cash over five years (See Note 34) and the remainder will be offset with liabilities arising from the purchase of intelligent household systems from Shenzhen Boromax for use in the Group's properties under development over five years (See Note 24).

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2014
Cash	–
Cash and bank balances disposed of	(335)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(335)

(b) On 29 July 2014, the Group disposed of its entire 89% equity interest in Happy Cube.

	29 July 2014
Net assets disposed of:	
Property, plant and equipment *(Note 17)*	7
Other intangible assets *(Note 16)*	4,531
Other receivables	6,328
Cash and bank balances	488
Other payables and accruals	(52)
Non-controlling interests	(1,247)
	10,055
Gain on disposal of a subsidiary *(Note 6)*	8
Satisfied by cash	10,063

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2014
Cash consideration	10,063
Cash and bank balances disposed of	(488)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	9,575

43. RELATED PARTY TRANSACTIONS

GROUP

In addition to the related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with related parties.

Significant related party transactions during the year:

i) Sales to and purchases from associates and the relevant balances

	2014	**2013**
Trade receivables from Broadband	313	314
Trade payables to New Technology	141	1,189

ii) Receivable due from a related party

	2014	**2013**
Receivable from CNTD Group for property management service	634	636

iii) Loan guarantee/security

A term loan of HK$220 million (entered into in 2012) is secured by a property in Hong Kong jointly owned by Mr. Shi Jian (Chairman) and Md. Si Xiao Dong (2013: HK$220 million).

A term loan of HK$3,204 million is guaranteed by SREI, Mr. Shi Jian and Md. Si Xiao Dong (2013: HK$1,272 million).

iv) Compensation to key management personnel of the Group

	2014	**2013**
Salaries and other short-term employee benefits	23,085	18,415

44. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

GROUP

Financial assets	**2014**	**2013**
Loans and receivables		
– Other receivables	406,864	503,816
– Trade receivables	47,356	35,503
– Cash and bank balances	2,108,997	2,941,096
	2,563,217	3,480,415

Financial liabilities	**2014**	**2013**
Financial liabilities at amortised cost		
– Interest-bearing bank and other borrowings	19,594,172	15,556,402
– Convertible bonds – host debts	–	8,332
– Trade payables	2,135,637	1,804,043
– Others	666,627	366,070
	22,396,436	17,734,847

COMPANY

Financial assets	**2014**	**2013**
Loans and receivables		
– Dividends receivable from subsidiaries	2,473,852	2,482,348
– Advances to subsidiaries	1,305,438	1,372,791
– Cash and bank balances	58,486	56,698
	3,837,776	3,911,837

Financial liabilities	**2014**	**2013**
Financial liabilities at amortised cost		
– Interest-bearing bank and other borrowings	1,607,443	1,520,034
– Convertible bonds – host debts	–	8,332
– Others	1,459	12,332
	1,608,902	1,540,698

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair values of financial assets and liabilities

Fair value estimates are made at a specific point in time based on relevant market information and information about the various financial instruments. When an active market exists, such as an authorised securities exchange, the market value is the best reflection of the fair values of financial instruments. For financial instruments where there is no active market or when current market prices are not available, fair value is determined using valuation techniques *(Note 2.4)*.

The Group's financial assets mainly include cash and bank balances and receivables.

The Group's financial liabilities mainly include interest-bearing bank and other borrowings, convertible bonds and payables.

Except as indicated below, the fair values of the Group's and the Company's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and appropriate valuation models.

GROUP AND COMPANY

	2014		**2013**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Convertible bonds – host debts	–	–	8,332	9,008

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets and liabilities measured at fair value:

GROUP AND COMPANY

The Group and the Company did not have any financial asset or financial liability measured at fair value as at 31 December 2014 and 2013.

Liabilities for which fair value are disclosed:

GROUP AND COMPANY

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Convertible bonds – host debts	–	–	9,008	9,008

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, convertible bonds, other interest-bearing loans, and cash and bank deposits. The main purpose of these financial instruments is to raise funds to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group does not enter into derivative transactions for trading purposes. The Group's accounting policies in relation to derivatives are set out in Note 2.4 to the financial statements.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to its interest-bearing bank and other borrowings. The Group does not use derivative financial instruments to manage its interest rate risk. The interest rates and terms of repayment of the borrowings are disclosed in Note 30.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rates of the major currencies in which the Group's borrowings are denominated, with all other variables held constant, of the Group's and the Company's profit before tax (through the impact on floating rate borrowings). The Group's and the Company's equity is not affected, except for the consequential effect on retained profits (a component of the Group's and the Company's equity) by the changes in profit before tax.

	Group		Company	
	2014 Impact on profit before tax	2013 Impact on profit before tax	2014 Impact on profit before tax	2013 Impact on profit before tax
Changes in variables – RMB interest rate				
+ 50 basis points	(89,934)	(70,184)	–	–
- 50 basis points	89,934	70,184	–	–
Changes in variables – HK$ interest rate				
+ 50 basis points	(5,167)	(4,731)	(5,167)	(4,731)
- 50 basis points	5,167	4,731	5,167	4,731
Changes in variables – US$ interest rate				
+ 50 basis points	(2,870)	(2,869)	(2,870)	(2,869)
- 50 basis points	2,870	2,869	2,870	2,869

Foreign currency risk

Most of the Group's operating entities operate in Mainland China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk with only limited exposure arising primarily with respect to cash at banks, convertible bonds and bank borrowings, which are mainly denominated in United States dollars ("US$"), Hong Kong dollars ("HK$") and Australian dollars ("AUD").

Renminbi is not a freely convertible currency. The conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$, the HK$ and the AUD exchange rates, with all other variables held constant, of the Group's and the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities). The Group's and the Company's equity is not affected, except for the consequential effect on retained profits (a component of the Group's and the Company's equity) by the impact on profit before tax is disclosed as below.

	Group		Company	
	2014 Impact on profit before tax	2013 Impact on profit before tax	2014 Impact on profit before tax	2013 Impact on profit before tax
Changes in exchange rate of US$ against Renminbi				
+ 5%	(27,897)	(28,352)	(28,089)	(28,652)
- 5%	27,897	28,352	28,089	28,652
Changes in exchange rate of HK$ against Renminbi				
+ 5%	(49,836)	(44,513)	(49,837)	(44,516)
- 5%	49,836	44,513	49,837	44,516
Changes in exchange rate of AUD against Renminbi				
+ 5%	477	3,698	477	–
- 5%	(477)	(3,698)	(477)	–

Credit risk

Credit risk mainly arises from cash at banks, trade receivables and other receivables, the balances of which represent the maximum credit risk exposure of the Group. For the sale of developed properties to retail customers, consideration would be settled in cash or customers' purchase would be financed by mortgage loans provided by banks. Receivable balances are monitored on an on-going basis other than the significant receivables in Note 25. There is no other significant concentration of credit risk within the Group as other debtors of the Group's receivables are widely dispersed and the majority of the Group's financial assets are cash at banks as at 31 December 2014.

The table below shows the maximum exposure to credit risk for the assets subject to credit risk at the end of the reporting period. The maximum exposure is shown gross, before the effect of mitigation through any collateral held or other credit enhancement.

	Group		Company	
	2014	2013	2014	2013
Financial assets				
Loans and receivables				
– Dividends receivable from subsidiaries	–	–	2,473,852	2,482,348
– Advances to subsidiaries	–	–	1,305,438	1,372,791
– Other receivables	406,864	503,816	–	–
– Trade receivables	47,356	35,503	–	–
– Cash at banks	2,106,374	2,938,377	58,467	56,670
	2,560,594	3,477,696	3,837,757	3,911,809

Liquidity risk

The Group maintains sufficient liquidity at all times with a financial planning system which is used to monitor the Group's future state of liquidity as estimated from the results of the Group's strategic and planning process. A 12-month forecast of fund requirements is updated monthly for the latest development.

Other than properties developed for sale, the Group also develops and holds properties for the long-term, such as hotel properties and investment properties. Such long-term assets have constituted an increasing proportion of total assets in recent years, which bring liquidity risk to the Group. In order to mitigate the liquidity risk, the Group adjusted its financing strategy to get more long-term borrowings and increase equity through the issuance of convertible bonds as well as new shares.

The Group has developed strategic relationship with certain major state-owned banks that will normally provide financing to the Group when approval from the relevant government authorities for the commencement of a project is obtained. The Group also seeks financing from overseas markets through close cooperation with several world-wide banks.

The maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

GROUP

	2014					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings	34,820	535,369	8,154,578	13,749,965	1,073,688	23,548,420
Trade payables	248,357	8,666	1,492,514	386,100	–	2,135,637
Others	30,002	23,411	133,922	454,002	25,290	666,627
	313,179	567,446	9,781,014	14,590,067	1,098,978	26,350,684

	2013					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings	30,115	1,073,547	5,197,015	11,753,615	1,546,422	19,600,714
Convertible bonds	–	267	9,171	–	–	9,438
Trade payables	233,651	140,623	1,168,910	260,859	–	1,804,043
Others	15,933	70,693	149,303	111,626	6,450	354,005
	279,699	1,285,130	6,524,399	12,126,100	1,552,872	21,768,200

COMPANY

	2014					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Interest-bearing bank and other borrowings	–	46,501	1,213,394	243,362	193,403	1,696,660
Others	1,069	390	–	–	–	1,459
	1,069	46,891	1,213,394	243,362	193,403	1,698,119

	2013					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Interest-bearing bank and other borrowings	–	5,287	1,202,972	230,049	109,663	1,547,971
Convertible bonds	–	267	9,171	–	–	9,438
Others	1,070	10,387	–	–	–	11,457
	1,070	15,941	1,212,143	230,049	109,663	1,568,866

Management has assessed that the fair values of trade payables and others approximate to their carrying amounts largely due to the short term maturities of these instruments.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014 and 31 December 2013.

As the Group is mainly engaged in the development of properties, it needs substantial amount of funds. The Group monitors capital using a gearing ratio, as defined by management for capital management purposes, which is net debt divided by the capital plus net debt.

Net debt includes interest-bearing bank and other borrowings and the liability component (host debts) of convertible bonds and less cash and bank balances. Capital includes equity attributable to owners of the parent and non-controlling interests. The gearing ratios are calculated as follows:

	2014	**2013**
Interest-bearing bank and other borrowings *(Note 30)*	19,594,172	15,556,402
Convertible bonds – host debts *(Note 33)*	–	8,332
Less: Cash and bank balances *(Note 27)*	(2,108,997)	(2,941,096)
Net debt	17,485,175	12,623,638
Equity attributable to owners of the parent	9,036,731	9,230,600
Non-controlling interests	566,804	322,755
Capital	9,603,535	9,553,355
Capital and net debt	27,088,710	22,176,993
Gearing ratio	65%	57%

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2015.

3. INDEBTEDNESS

Borrowings

As at 30 September 2015, being the Latest Practicable Date for this indebtedness statement, the details of the Group's outstanding borrowings were as follows:

		30 September
		HK$'000
Bank borrowings – Secured	*(a)*	3,673,192
Bank borrowings – Unsecured		0
Other borrowings – Secured	*(b)*	3,207,055
Other borrowings – Unsecured		548,239
Current portion		7,428,486
Bank borrowings – Secured	*(a)*	7,443,203
Bank borrowings – Unsecured		0
Other borrowings – Secured	*(b)*	1,296,890
Other borrowings – Unsecured		193,116
Non-current portion		8,933,209
Total		16,361,695

(a) As at the close of business on 30 September 2015, the Group's bank borrowings of approximately HK$11,117 million was secured by the pledges of certain bank deposits, leasehold land, investment properties, properties held or under development for sale, property, plant and equipment, part of future property pre-sales proceeds and an equity interest of a subsidiary. In addition, among the above bank borrowings, a bank loan of HK$720 million was guaranteed by Mr. Shi Jian, the Chairman of the Company and Md. Si Xiao Dong, the spouse of Mr. Shi Jian. A bank loan of HK$200 million was secured by pledge of private property held by Mr. Shi Jian.

(b) As at the close of business on 30 September 2015, the Group's other borrowings of approximately HK$4,504 million was secured by the pledges of certain leasehold land, properties held or under development for sale and equity interests of certain subsidiaries. In addition, among the above other borrowings, a term loan with a principal of HK$1,856 million was guaranteed by SREI and Mr. Shi Jian, and another term loan with a principal of HK$634 million was guaranteed by Mr. Shi Jian.

Contingent liabilities

(1) The Group provided guarantees in respect of the mortgage facilities granted by certain banks to the certain purchasers of the Group's properties. Pursuant to the terms of the guarantee arrangements, in case of default on mortgage payments by the purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to the banks. The Group is then entitled to take over the legal titles of

the related properties. The Group's guarantee periods commence from the dates of grant of the relevant mortgage loans and end when the purchasers pledge related properties certificates as securities to the banks for the mortgage loans granted by the banks. The Group entered into guarantee contracts of principal amounts totaling approximately RMB170.9 million and these contracts were still effective as at the close of business on 30 September 2015.

(2) Reference is made to the announcement of the Company on 24 September 2015 and the sub-section headed "Other Arrangement" in the section headed "Letter from the Board" in this circular regarding certain Financing Transactions (as defined therein). In connection with those Financing Transactions, the Company and/or certain of its subsidiaries were found to have executed certain guarantee and a mortgage in favour of banks for the Third Party Indebtedness of certain connected persons of Mr. Shi Jian. The aggregate outstanding principal amount of the Third Party Indebtedness as at 31 August 2015 was approximately RMB2,382.7 million. For further details, please refer the abovementioned sub-section of this circular and the aforementioned announcement.

(3) Save as aforesaid, and apart from intra-group liabilities and normal trade and other payable in the ordinary course of business of the Group, as at the close of business on 30 September 2015, the Group did not have any outstanding indebtedness in respect of any loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance lease or hire purchases commitments, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, guarantees or other material contingent liabilities.

4. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the financial resources and credit facilities available to the Group, the net proceeds from the Major Disposal and the net proceeds from the Subscription, the Group will have sufficient working capital to satisfy its present requirements for the next twelve months from the date of this circular in the absence of unforeseen circumstances.

5. MATERIAL CHANGE

Save for the following events, the Directors confirm that, there had been no material change in the financial or trading position or outlook of the Group since 31 December 2014, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date:

(i) the information regarding Changzhou City People's Procuratorate of the People's Republic of China has required Mr. Shijian ("Mr. Shi"), an executive director of the Company, to stay under custody at a designated residence ("Measures") as disclosed in the announcement of the Company dated 9 June 2015 which has had an negative impact on the financing capabilities and liquidity of the Group as Mr. Shi have been actively involved in certain applications for new financing and refinancing for its operations and business development and the aforesaid new financing and refinancing may be subject to the execution of a guarantee to be provided by Mr. Shi; as a result of this, projects like the urban renewal and construction project located in Shanghai covering a land area of approximately 37,000 square meters at an estimated capital requirement of approximately RMB5,000 million ("Urban Renewal and Construction Project") and the residence construction project located in Shenyang covering a land area of approximately 68,000 square meters at an estimated capital requirement of approximately RMB1,800 million ("Residence Construction Project") have been slowed down; based on preliminary discussions with certain banks, we understand that without an introduction of a new strategic investor with sound financial background, the relevant financing and refinancing would not further proceed such that the development of both the Urban Renewal and the Construction Project and Residence Construction Project will be further suspended and delayed; this will subsequently impact on the future business developments and trading prospect of the Group;

(ii) the information regarding the disposal of the 60% equity interest in the Shanghai Albany Oasis Real Estate Limited ("Albany Oasis") as disclosed in the announcement of the Company dated 30 October 2015 with net proceeds of RMB547,872,000 (equivalent to approximately HK$667,485,380); as a result of the possible disposal, Albany Oasis will no longer be a subsidiary of the Company and its financial results will no longer be consolidated into the financial statements of the Group upon completion of the disposal;

(iii) the information regarding the Financing Transactions (as defined therein) as disclosed in the announcement of the Company on 24 September 2015 under which the Company and/or certain of its subsidiaries have executed certain guarantee and a mortgage in favour of banks for third party indebtedness of certain connected persons of Mr. Shi Jian with an aggregate outstanding principal amount of approximately RMB2,382.7 million as at 31 August 2015; the Financing Transactions expose the Group to contingent liabilities of the third party indebtedness as disclosed in the announcement of the Company dated 24 September 2015 and 3 November 2015;

(iv) the information set out in the section headed "6. FINANCIAL AND TRADING PROSPECTS OF THE GROUP" of Appendix I of the circular of the Company in relation to the Subscription regarding the new equity money and the much stronger parentage support in terms of funding resources and others upon the Subscription Completion;

6. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

After the completion of the Subscription, the Company will receive net proceeds amounting to approximately HK$1,486 million. With this amount of new equity money and with the much stronger parentage support in terms of funding resources, the Company shall be able to speed up the pace of development of the existing projects which have been progressing slowly due to financial constraints. Besides, the Company will be able to ride on the strong business networks and other capabilities of China Minsheng Jiayi in its future development. The Company will, upon the completion of the Subscription, further discuss with China Minsheng Jiayi about its business plan with a view to maximize the benefits which China Minsheng Jiayi can bring to the Company and all the shareholders of the Company.

The biographical details of the candidates proposed to be appointed as Directors at the SGM are provided by China Minsheng Jiaye and set out as follows:

Mr. He Binwu, aged 67, has over 20 years of experience in real estate development. Mr. He earned a diploma certificate from Shanghai Jiao Tong University in 1976. Mr. He had held various positions since 1987, including the positions as a director and a deputy general manager of Franshion Company Limited（方興實業有限公司）, the managing director of Shanghai Port International Cruise Terminal Development Co., Ltd.（上海港國際客運中心開發有限公司）, Shanghai International Shipping Service Center Development Co., Ltd.（上海國際航運服務中心開發有限公司）, Shanghai Yinhui Real Estate Development Co., Ltd（上海銀滙房地產發展有限公司）and Shanghai Star Bund Development and Construction Co., Ltd.（上海星外灘開發建設有限公司）. From June 2004 to August 2015, Mr. He had served as an executive director and a vice president of Franshion Properties (China) Limited (now known as China Jinmao Holdings Group Limited) (Hong Kong stock code: 00817).

Mr. Peng Xinkuang, aged 39, has extensive experience in the real estate industry. Mr. Peng earned a diploma certificate in industrial and civil construction from Changsha University in 1996. Mr. Peng obtained a bachelor's degree in sales management from Hunan University of Commerce in 2014 and is currently pursuing an executive master of business administration degree at Central South University. Mr. Peng had held various positions in the past, including the positions as the chairman of Meixi Lake Investment (Changsha) Co., Ltd.（梅溪湖投資(長沙)有限公司）, the minister of construction project, the commissioner for planning and construction and a deputy director of the Changsha Qingzhu Lake Management Committee（長沙青竹湖管委會）, the vice minister of construction project of Hunan Xiangjiang New Zone（湖南湘江新區）, an executive director and the general manger of Changsha Meixi Lake Industrial Co., Ltd.（長沙梅溪湖實業有限公司）and the chairman of Pilot Public Utilities Company（先導公共設施公司）.

Mr. Chen Chao, aged 35, is the Chief Risk Management Officer of China Minsheng Jiaye. Mr. Chen obtained a bachelor's degree in international business management from Fudan University in 2002. Mr. Chen holds the qualification of certified public accountant in the PRC. Before joining China Minsheng Jiaye, Mr. Chen had engaged in auditing and financial advisory work and had held various positions, including the positions as a co-director of the financial advisory department of Ernst & Young (China) and an auditing manager of KPMG (China).

Mr. Zhu Qiang, aged 36, is the Chief Investment Officer of China Minsheng Jiaye. Mr. Zhu obtained a bachelor's degree in management engineering in 2002 and a master's degree in technology economics and management in 2005 from Tongji University. Mr. Zhu has over 10 years of experience in real estate investment and development and had held various positions, including the positions as a deputy general manager of Franshion Real Estate Changsha Co., Ltd.（方興地產長沙有限公司）, the general manager of Changsha Meixi Lake Jinyue Properties Co., Ltd.（長沙梅溪湖金悦置業有限公司）, a senior investment manager of the investment and development department of Franshion Properties (China) Limited (now known as China Jinmao Holdings Group Limited) (Hong Kong stock code: 00817), an investment director of the investment management department of Jinmao Group（中國金茂集團）and an industry analyst of the administration department of Yunfeng Group（雲峰集團）.

Mr. Zhao Xiaodong, aged 36, is the Chief Financial Officer of China Minsheng Jiaye. Mr. Zhao obtained a bachelor's degree in accounting in 2002, a master's degree in management in 2007 and a PhD degree in management in 2007 from Tsinghua University. Mr. Zhao holds the qualification of certified public accountant in the PRC. Mr. Zhao has extensive experience in the construction and real estate industry and had held various positions, including the positions as a deputy general manager of the capital markets department, general manager of the investment and development department and a deputy general manager of a subsidiary in Nanjing of Franshion Properties (China) Limited (now known as China Jinmao Holdings Group Limited) (Hong Kong stock code: 00817), and an assistant to the Chief Financial Officer of Country Garden Holdings Company Limited (Hong Kong stock code: 02007).

As at the Latest Practicable Date, none of the candidates has entered into any service contract with the Company. If appointed, each of the candidates will be subject to retirement by rotation and re-election in accordance with the Bye-laws. The remuneration of each of the candidates will be determined with reference to the prospective duties and responsibilities of such candidate with the Company and the prevailing market conditions.

Save as disclosed above, as at the Latest Practicable Date, each of the candidates:

(a) does not have any relationship with any other Directors, senior management, substantial shareholder or controlling shareholder of the Company and has not held any other directorships in listed public companies in the last three years;

(b) does not hold any other positions with the Group;

(c) does not have any interests in the Shares within the meaning of Part XV of the SFO; and

(d) has confirmed that there are no other matters in connection with his appointment that need to be brought to the attention of the Shareholders and there are no information that should be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

The biographical details of Mr. Shi Janson Bing, who is proposed to be re-elected as an executive Director at the SGM, are set out as follows:

Mr. Shi Janson Bing, aged 32, was appointed as an Executive Director and a Vice-chairman of the Board on 17 July 2015. Mr. Shi graduated from the University of Southern California and obtained a Bachelor's degree in accounting. Mr. Shi has over 7 years of experience working in the field of property development and in corporate management and operations. He was appointed as an Executive Director of China New Town Development Company Limited ("CNTD") (Hong Kong stock code: 1278 and Singapore stock code: D4N.si) in December 2007, and assumed the position as the Co-Chief Executive Officer in November 2010. He was responsible for project developments, management of human resources and overseeing all commercial operations. He also sat on the boards of various companies within CNTD. Mr. Shi resigned from all his positions in CNTD in March

2014. He is the son of Mr. Shi Jian, the Chairman of the Board and the controlling shareholder of the Company. He is also the cousin of Mr. Shi Lizhou, an Executive Director of the Board. He also sits on the boards of some companies of the Group.

Save as disclosed above, Mr. Shi does not have any relationship with any other Directors, senior management, substantial shareholders or controlling shareholders of the Company. Save as the directorship mentioned above, Mr. Shi has not held any other directorships in listed public companies in the last three years. Save as the directorship and the position disclosed above, Mr. Shi does not hold any other positions with the Group.

As at the Latest Practicable Date, Mr. Shi does not have any interest in the Shares within the meaning of Part XV of the SFO. Pursuant to the service contract entered into between Mr. Shi and the Company, Mr. Shi was appointed as an executive Director for a term of 2 years commencing on 17 July 2015 (subject to retirement by rotation and re-election in accordance with the Bye-laws), unless otherwise terminated by either party by giving not less than 6 months' written notice to the other or otherwise in accordance with the other terms of the service contract. Pursuant to his service contract, he is entitled to a remuneration of HK$1,600,000 per annum, which was determined with reference to his duties and responsibilities with the Company and the prevailing market conditions.

Save as disclosed above, Mr. Shi has confirmed that there are no other matters in connection with his re-election that need to be brought to the attention of the Shareholders and there are no information that should be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. In accordance with the Listing Rules, the Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular (other than information relating to the Subscribers) is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular or this circular misleading.

In accordance with the Takeovers Code, the Directors jointly and severally accept full responsibility for the accuracy of the information in this circular (other than information relating to the Subscribers) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than opinions expressed by the Subscribers) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The directors of China Minsheng Jiaye, namely Zhang Zhichao (Chairman), Zhai Yanjie, Wu Chen, Liu Yueping, Fang Rong, Shi Yuwei, Cao Zhenling and Yan Yuanhao, jointly and severally accept full responsibility for the accuracy of the information relating to China Minsheng Jiaye contained in this circular and confirm having made all reasonable inquiries, that to the best of their knowledge, opinions expressed by China Minsheng Jiaye in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statements in this circular misleading.

The sole director of Investor A, namely Ms. Mu Yan, accepts full responsibility for the accuracy of the information relating to Investor A contained in this circular and confirms, having made all reasonable inquiries, that to the best of her knowledge, opinions expressed by Investor A in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statements in this circular misleading.

The sole director of Investor B, namely Ms. Dong Xiao Li, accepts full responsibility for the accuracy of the information relating to Investor B contained in this circular and confirms, having made all reasonable inquiries, that to the best of her knowledge, opinions expressed by Investor B in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statements in this circular misleading.

The sole director of Investor C, namely Mr. Tsar Chun Yeung, accepts full responsibility for the accuracy of the information relating to Investor C contained in this circular and confirms, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed by Investor C in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statements in this circular misleading.

The sole director of Investor D, namely Mr. Liu Kun, accepts full responsibility for the accuracy of the information relating to Investor D contained in this circular and confirms, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed by Investor D in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statements in this circular misleading.

The sole director of Investor E, namely Mr. Xia Wu Jie, accepts full responsibility for the accuracy of the information relating to Investor E contained in this circular and confirms, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed by Investor E in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statements in this circular misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

		HK$
Authorised share capital		
8,000,000,000	Shares	800,000,000
Issued and fully paid		
5,664,713,722	Shares	566,471,372.2

The existing issued Shares are fully paid up and rank pari passu with each other in all respects (including as to capital, dividends and voting). The Company has not issued any Shares since 31 December 2014, being the date of the latest published audited accounts of the Group.

The Shares are listed and traded on the Stock Exchange. None of the Shares is listed, or dealt in, on any other stock exchange, nor is any listing or permission to deal in the Shares being, or proposed to be sought, on any other stock exchange.

As at the Latest Practicable Date, the Company has no other shares, options, warrants, derivatives or other securities that carry a right to subscribe for or which are convertible into Shares.

3. DISCLOSURE OF INTERESTS

3.1 Interests of Directors

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange; or (d) to be disclosed in this circular pursuant to the requirements of the Takeovers Code, were as follows:

Long position in Shares

Name of Director	Personal interests	Family interests	Corporate interests	Total	Approximate percentage of shareholding
Shi Jian	13,006,991	2,324 *(Note 1)*	2,889,659,128 *(Note 2)*	2,902,668,443	51.24%
Zhuo Fumin	–	160,000 *(Note 3)*	–	160,000	0.003%

Notes:

1. These Shares were held by Md. Si Xiao Dong, the spouse of Mr. Shi Jian.

2. These 2,889,659,128 Shares were held by SREI. As Mr. Shi Jian and his spouse, Md. Si Xiao Dong together beneficially own 66% of the issued share capital of SREI, Mr. Shi was deemed to be interested in these 2,889,659,128 Shares.

3. These Shares were held by Md. He Pei Pei, the spouse of Mr. Zhuo Fumin.

Save as disclosed in this paragraph 3.1 of this Appendix, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are deemed or taken to have under provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange; or (d) to be disclosed in this circular pursuant to the requirements of the Takeovers Code.

As at the Latest Practicable Date, save as disclosed in the notes to paragraph 3.2 of this Appendix below, none of the Directors was a director or employee of a company which had any interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3.2 Interests of substantial shareholders

As at the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be entered into the register to be kept by the Company pursuant to section 336 of the SFO:

Long positions in Shares

Name of Shareholder	Capacity	Number of issued ordinary shares held *(Note 1)*	Approximate percentage of shareholding
Si Xiao Dong	Beneficial owner, spouse and corporate interest	2,902,668,443 (L) *(Note 2)*	51.24%
SREI	Beneficial owner	2,889,659,128 (L)	51.01%
China Minsheng Investment	Interest in controlled corporation	12,500,000,000 (L) *(Note 3)*	220.66%
China Minsheng Jiaye	Beneficial owner	12,500,000,000 (L)	220.66%

Notes:

(1) "L" represents long positions in Shares.

(2) These Shares comprised 2,324 Shares held by Md. Si Xiao Dong, 13,006,991 Shares held by her spouse, Mr. Shi Jian and 2,889,659,128 Shares which SREI was interested in.

(3) China Minsheng Jiaye is owned as to 100% by China Minsheng Investment. China Minsheng Investment is therefore deemed to be interested in the Shares to be held by China Minsheng Jiaye upon the Subscription Completion for the purpose of SFO.

As at the Latest Practicable Date, the following persons or entities (other than Directors or chief executives of the Company) were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

No.	Name of member of the Group	Name of entity which is interested in 10% or more interest	Approximate percentage of interest held
1	Shanghai Lushan Real Estate Ltd.	Shanghai Electric Power Co., Ltd.	45%
2	Dalian Shangzhi Real Estate Development Co., Ltd.	JIC Trust Co., Ltd.	49%
3	SRE Internet Finance Information Co., Ltd.	Shanghai Qifang Industrial Co., Ltd.	15%
4	Shanghai Zhufu Property Development Co., Ltd.	Shanghai Haizhan Cci Capital Ltd.	49%
5	Shanghai Skyway Hotel Co., Ltd.	Shanghai Great Wall Investment Holding (Group) Co., Ltd.	35%
6	Haikou Century Harbour City Co., Ltd.	Hainan Guosheng Investment Co., Ltd.	20%
7	Anderson Land (Shanghai) Ltd.	Lucky Charming Enterprises Limited	48%

Save as disclosed in this paragraph 3.2 of this Appendix, there is no person known to the Directors, who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be entered into the register to be kept by the Company pursuant to section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

4. MARKET PRICES

(a) The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK$0.920 per Share (on 2 June 2015) and HK$0.192 per Share (on 27 March 2015), respectively.

(b) The table below sets out the closing prices of the Shares as quoted on the Stock Exchange on the last trading day of each of the calendar months during the Relevant Period on which trading of Shares took place:

Date	**Closing Price of Shares**
31 March 2015	HK$0.198
28 April 2015 *(Note)*	HK$0.385
29 May 2015	HK$0.870
30 June 2015	HK$0.475
31 July 2015	HK$0.400
31 August 2015	HK$0.335
30 September 2015	suspended
30 October 2015	suspended

Note: Being the last trading day for the month of April 2015 prior to the suspension of trading in the Shares pending the release of announcement in relation to inside information of the Company.

(c) The closing price of the Shares on the Stock Exchange on 11 September 2015, the last trading day immediately preceding the date of the MOU Announcement, was HK$0.400.

(d) The closing price of the Shares on the Stock Exchange on the Last Trading Day was HK$0.390.

(e) The closing price of the Shares on he Stock Exchange on the Latest Practicable Date was HK$0.365.

5. OTHER ARRANGEMENTS

As at the Latest Practicable Date, China Minsheng Jiaye has confirmed that neither it nor any persons acting in concert with it:

(a) save as pursuant to the Subscription Agreement, has acquired or disposed of or entered into any agreement or arrangement to acquire or dispose of any voting rights in the Company within the six months prior to the date of the Subscription Agreement and up to the Latest Practicable Date;

(b) owns any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of Shares, or has entered into any outstanding derivative in respect of securities in the Company; and

(c) has any agreements or arrangements to which China Minsheng Jiaye (or any person acting in concert with it) is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the transactions contemplated under the Subscription Agreement or the Whitewash Waiver (including any such agreements or arrangements that would result in any break fees being payable).

6. ADDITIONAL DISCLOSURE OF INTERESTS

6.1 Disclosure of interests under Schedule I to the Takeovers Code

As at the Latest Practicable Date:

(a) save as disclosed in the section headed "Disclosure of Interests" in this Appendix, none of China Minsheng Jiaye, its directors nor any person acting in concert with it owns or controls any Shares, convertible securities, warrants, options or derivatives of the Company;

(b) neither China Minsheng Jiaye nor any person acting in concert with it had received any irrevocable commitment from any Shareholder that such Shareholder will vote in favour of or against the relevant Transactions at the SGM;

(c) save and except for the Loan, the Security and the Liquidated Damages as disclosed in the sub-section headed "Other Information" in the section headed "Letter from the Board" in this circular, neither China Minsheng Jiaye nor any person acting in concert with it had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) with any persons in relation to the Shares and which might be material to the transactions contemplated under the Subscription Agreement or the Whitewash Waiver;

(d) neither China Minsheng Jiaye nor any person acting in concert with it had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company;

(e) China Minsheng Jiaye and any person acting in concert with it had not dealt for value in any Shares or any convertible securities, warrants, options and derivatives in respect thereof during the Relevant Period;

(f) there was no agreement, arrangement or understanding pursuant to which the Subscription Shares will be transferred, charged or pledged to any other persons; and

(g) no agreement, arrangement or understanding (including any compensation arrangement) exists between China Minsheng Jiaye or any person acting in concert with it and any of the directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the Whitewash Waiver.

6.2 Disclosures of interest under Schedule II to the Code

As at the Latest Practicable Date:

(a) save as disclosed in the section headed "Disclosure of Interests" in this Appendix, none of the Directors were interested in any Shares, convertible securities, warrants, options or derivatives of the Company;

(b) neither the Company nor the Directors were interested in any shares, convertible securities, warrants, options or derivatives of China Minsheng Jiaye;

(c) no subsidiary of the Company, nor any pension fund of the Group, nor any adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code, owns or controls any Shares, convertible securities, warrants, options or derivatives of the Company;

(d) no Shares, convertible securities, warrants, options or derivatives of the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;

(e) the Company is unable to ascertain the voting intention of Mr. Shi Jian (being the Chairman and an executive Director) on the resolutions to be proposed at the SGM in respect of the 13,006,091 Shares held by Mr. Shi Jian in his personal capacity ("Mr Shi's Shares"). The Company has raised enquiries with Madam Si Xiao Dong (spouse of Mr. Shi Jian) who confirmed that, to the extent legally feasible and if voting in respect of any part of Mr. Shi's Shares is eventually cast at the SGM, she will procure and ensure that the vote is cast in favour of the resolutions relating to the Share Capital Increase, and that no vote (or an abstaining vote) will be cast in respect of Mr. Shi's Shares on the relevant resolutions relating to the Subscription, the Specific Mandate and the Whitewash Waiver. Madam Si Xiao Dong and SREI intend to vote in favour of the resolutions relating to the Share Capital Increase, and abstain from voting on the relevant resolutions relating to the Subscription, the Specific Mandate and the Whitewash Waiver in respect of the beneficial holding of 2,324 Shares (held by Madam Si) and 2,889,659,128 Shares (held by SREI), respectively. Madam He Pei Pei (spouse of Mr. Zhuo Fumin who is an independent non-executive Director) intends to vote in favour of the resolutions relating to the Share Capital Increase, the Subscription, the Specific Mandate and the Whitewash Waiver in respect of her beneficial holding in 160,000 Shares;

(f) neither the Company nor the Directors had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company;

(g) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code has been entered into between the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" in the Takeovers Code, and any other person;

(h) As at the Latest Practicable Date, no benefit had been given or will be given to any Director as compensation for loss of office or otherwise in connection with the Subscription and /or the Whitewash Waiver;

(i) As at the Latest Practicable Date, there was no agreement or arrangement between any Directors and any other person which is conditional on or dependent upon the outcome of the Subscription and/or the Whitewash Waiver or otherwise connected therewith; and

(j) As at the Latest Practicable Date, other than the Subscription Agreement, there was no material contract entered into by the Subscribers in which any Director had a material personal interest.

7. DEALINGS IN SECURITIES

7.1 Disclosure of dealings under Schedule II to the Code

During the Relevant Period:

(a) the Company has not dealt for value in the shares, convertible securities, warrants, options or derivatives of the Subscribers;

(b) none of the Directors has dealt for value in the shares, convertible securities, warrants, options or derivatives of the Company or the Subscribers;

(c) no subsidiary of the Company, nor any pension fund of the Group, nor any adviser to the Company as specified in class (2) of the definition of "associate" under the Code (but excluding exempt principal traders), has dealt for value in the Shares, convertible securities, warrants, options or derivatives of the Company;

(d) no person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" in the Code has dealt for value in the Shares, convertible securities, warrants, options or derivatives of the Company; and

(e) no fund manager (other than an exempt fund manager) connected with the Company and managing funds on a discretionary basis has dealt for value in the Shares, convertible securities, warrants, options or derivatives of the Company.

8. DIRECTORS' SERVICE CONTRACTS

Save for

(i) a service contract dated 17 July 2015 and entered into between the Company and Mr. Shi Janson Bing, in relation to the appointment of Mr. Shi Janson Bing as the executive Director for a term of 2 years for the annual remuneration of HK$1,600,000 and each of the Company and Mr. Shi Janson Bing may serve a six-month advance notice in writing to terminate the said service contract;

(ii) a service contract dated 5 February 2015 and entered into between the Company and Mr. Ma Dayu, in relation to the appointment of Mr. Ma Dayu as the executive Director for a term of 2 years for the annual remuneration of HK$1,300,000 and each of the Company and Mr. Ma Dayu may serve a six-month advance notice in writing to terminate the said service contract; and

(iii) a service contract dated 5 February 2015 and entered into between the Company and Mr. Li Genfa, in relation to the appointment of Mr. Li Genfa as the executive Director for a term of 2 years for the annual remuneration of HK$1,300,000 and each of the Company and Mr. Li Genfa may serve a six-month advance notice in writing to terminate the said service contract,

as at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group or associated companies (i) which is not determinable by the Company within one year without payment of compensation, other than statutory compensation; (ii) which (including both continuous and fixed term contracts) had been entered into or amended within six months before 15 September 2015; (iii) which were continuous contracts with a notice period of 12 months or more; or (iv) which were fixed term contracts with more than 12 months to run irrespective of the notice period.

9. DIRECTORS' INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors had any interest (direct or indirect) in any asset which had been since 31 December 2014 (being the date to which the latest published audited financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group or was proposed to be acquired or disposed of by or leased to any member of the Group.

10. DIRECTORS' INTEREST IN CONTRACTS AND ARRANGEMENTS

As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

11. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in businesses that competed or was likely to compete, whether directly or indirectly, with the business of the Remaining Group, or has or may have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

12. MATERIAL CONTRACTS

The following contracts (not being a contract entered into in the ordinary course of business of the Group) were entered into by members of the Group within two years immediately preceding 15 September 2015 (being the date of the MOU Announcement) and up to the Latest Practicable Date and are or may be material:

(a) a guarantee contract dated 19 December 2013 executed by the Company as a guarantor to secure the repayment obligations of Black Eagle (Shanghai) Investment Management Limited under three loan agreements between Black Eagle (as borrower) and Bank A (as lender) dated 19 December 2013, 19 December 2013 and 4 May 2014 respectively with a total loan amount of RMB1,300,000,000 (HK$1,586,000,000). Further details are contained in the Company's announcement dated 24 September 2015 and the sub-section headed "Other Arrangement" in the section headed "Letter from the Board" in this circular;

(b) a guarantee contract dated 30 July 2014 executed by the Company Wuxi Yongqing Real Estate Co., Ltd. (98.75%-owned subsidiary of the Company), and Shanghai Shuo Cheng Real Estate Co., Ltd. (a wholly-owned subsidiary of the Company) as guarantors to secure the repayment obligations of Shanghai Golden Luodian Development Co., Ltd. under the loan agreement between Shanghai Golden Luodian Development Co., Ltd. (as borrower) and Bank B (as lender) dated 29 October 2009 for a loan of RMB600,000,000 (HK$732,000,000). Further details are contained in the Company's announcement dated 24 September 2015 and the sub-section headed "Other Arrangement" in the section headed "Letter from the Board" in this circular;

(c) a guarantee contract dated 30 July 2014 executed by the Company, Wuxi Yongqing Real Estate Co., Ltd. (98.75%-owned subsidiary of the Company) and Shanghai Shuo Cheng Real Estate Co., Ltd. (a wholly-owned subsidiary of the Company) as guarantors to secure the repayment obligations of Malaren Hospital Assets) under the loan agreement between Shanghai Lake Malaren Hospital Investment Co., Ltd. (as borrower) and Bank B (as lender) dated 12 June 2012 with a loan amount of (HK$549,000,000). Further details are contained in the Company's announcement dated 24 September 2015 and the sub-section headed "Other Arrangement" in the section headed "Letter from the Board" in this circular;

(d) a property mortgage contract dated 1 September 2014 executed by Shanghai Anderson Fuxing Land Co., Ltd. (a 51.48%-owned subsidiary of the Company) as a chargor to pledge a property it owns in favour of Bank C to secure the repayment obligations of Shanghai Lake Malaren Obstetrical and Gynecological Hospital Investment Co., Ltd. under the loan agreement between Shanghai Lake Malaren Obstetrical and Gynecological Hospital Investment Co., Ltd. (as borrower) and Bank C (as lender) dated 1 September 2014 for a loan of RMB30,000,000 (HK$36,600,000). Further details are contained in the Company's announcement dated 24 September 2015 and the sub-section headed "Other Arrangement" in the section headed "Letter from the Board" in this circular;

(e) a guarantee contract dated 19 September 2014 executed by the Company as a guarantor to secure the repayment obligations of Chengdu Shanghai Real Estate Co., Ltd. under the loan agreement between Chengdu Shanghai Real Estate Co., Ltd. (as borrower) and Bank D (as lender) dated 19 December 2014 with a loan amount of RMB400,000,000 (HK$488,000,000). Further details are contained in the Company's announcement dated 24 September 2015 and the sub-section headed "Other Arrangement" in the section headed "Letter from the Board" in this circular;

(f) a memorandum of understanding dated 5 June 2015 entered between the Company, Poly Real Estate Group Co., Ltd. and SRE Investment Holding Limited under which Poly Real Estate Group Co., Ltd expressed an interest to subscribe for Shares to be allotted and issued by the Company for subscription at HK$0.25 per Share. Further details are contained in the Company's announcement dated 9 June 2015;

(g) a termination agreement dated 14 August 2015 entered between the Company, Poly Real Estate Group Co., Ltd. and SRE Investment Holding Limited to terminate the memorandum of understanding dated 5 June 2015 by mutual consent. Further details are contained in the Company's announcement dated 14 August 2015;

(h) a memorandum of understanding dated 12 September 2015 entered between the Company, China Minsheng Jiaye Investment Co., Ltd and SRE Investment Holding Limited under which China Minsheng Jiaye Investment Co., Ltd expressed an interest to, directly or indirectly through a wholly owned subsidiary, subscribe for Shares to be allotted and issued by the Company for subscription at HK$0.10 per Share; and

(i) the Subscription Agreement.

13. LITIGATION

As at the Latest Practicable Date, neither the Company nor any member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any member of the Group.

14. EXPERTS AND CONSENTS

The following are the qualifications of the professional experts who have given opinion or advice, which is contained in this circular:

Name	Qualification
Chanceton	a licensed corporation to carry out type 6 (advising in corporate finance) regulated activities under the SFO
Amasse	a licensed corporation to carry out type 6 (advising in corporate finance) regulated activities under the SFO

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report and references to its name and logo in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above experts had no direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor does it have any interest (whether direct or indirect) in any assets which have been, since 31 December 2014 (being the date to which the latest published audited financial statements of the Group were made up) acquired or disposed of or leased to any member of the Group or are proposed to be acquired, disposed of or leased to any member of the Group.

15. GENERAL

(a) Reference is made to the announcement of the Company dated 2 October 2015. The Company is in the process of identifying suitable candidate to fill in the vacancy of company secretary of the Company. Further announcement will be published once such appointment is confirmed.

(b) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the Head office and principal place of business in Hong Kong is at Suite 4006, 40/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

(c) The Company's principal share registrar and transfer office of the Company is MUFG Fund Services (Bermuda) Limited at The Belvedere Building, 69 Pitts Bay Road, Pembroke MH08, Bermuda.

(d) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) The registered address of China Minsheng Jiaye is Room 2302, No. 100 South Zhongshan Road, Huangpu District, Shanghai, China. The directors of China Minsheng Jiaye comprise Zhang Zhichao (Chairman), Zhai Yanjie, Wu Chen, Liu Yueping, Fang Rong, Shi Yuwei, Cao Zhenling and Yan Yuanhao. The directors of China Minsheng Investment comprise Dong Wenbiao (Chairman), Li Huaizhen, Li Yinheng, Mao Yonghong, Zhang Jianhong, Li Guangrong, Li Zhenxi, Lu Zhiqiang, Shi Guilu, Shi Yuzhu, Sun Yinhuan, Yang Xiaoping and Zhou Haijiang.

(f) The registered address of IFA is at Room 1201, 12th floor, Prosperous Building, 48-52 Des Voeux Road Central, Hong Kong.

(g) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text thereof.

16. DOCUMENTS AVAILABLE FOR PUBLIC INSPECTION

Copies of the following documents are available for inspection from 9:00 am to 5:00 pm on any weekday other than public holidays, up to and including the date of the SGM at the principal place of business of the Company at Suite 4006, 40/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong:

(a) the Bye-laws;

(b) the memorandum and articles of association of China Minsheng Jiaye;

(c) the annual reports of the Company for each of the three financial years ended 31 December 2014, respectively;

(d) the interim report of the Company for the six months ended 30 June 2015;

(e) the "Letter from the Board", the text of which is set out in this circular;

(f) the "Letter from the IBC", the text of which is set out in this circular;

(g) the "Letter from the IFA", the text of which is set out in this circular;

(h) the written consents referred to in the paragraph headed "Experts and Consents" in this Appendix;

(i) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;

(j) the service contracts referred to under the paragraph headed "8. DIRECTORS' SERVICE CONTRACTS" in this Appendix; and

(k) this circular.

The documents above will be available on the website of the SFC at www.sfc.hk and the Company's website at www.sre.com.cn from the date of this circular up to and including the date of the SGM.

SRE GROUP LTD.

SRE GROUP LIMITED
上置集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 1207)

NOTICE IS HEREBY GIVEN that the special general meeting of SRE Group Limited (the "**Company**") will be held at Taichi Room, Unit 3810, 38/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on Wednesday, 2 December 2015, at 3:00 p.m. for the purpose of considering and, if thought fit, passing (with or without modification), each of the following resolutions as an ordinary resolution of the Company:

ORDINARY RESOLUTIONS

Words and expressions that are not expressly defined in this notice shall bear the same meaning as those defined in the circular dated 16 November 2015 issued by the Company.

1. "**THAT**, the authorised share capital of the Company be and is hereby increased from HK$800,000,000 divided into 8,000,000,000 shares of HK$0.10 each ("**Shares**") to HK$5,000,000,000 divided into 50,000,000,000 Shares by the creation of additional 42,000,000,000 Shares (the "**Increase in Authorised Share Capital**") and the directors of the Company (the "**Directors**") be and are hereby authorised for and on behalf of the Company to execute all such documents and to do all such acts and things as they consider desirable, necessary or expedient in connection with and to give effect to the Increase in Authorised Share Capital."

2. "**THAT**, subject to the passing of resolution numbered 1 above:

   (a) the entering into of the conditional subscription agreement dated 9 October 2015 (the "**Subscription Agreement**", a copy of which has been produced to this meeting marked "A" and initialed by the chairman of this meeting for the purpose of identification) among China Minsheng Jiaye and the Investors (the "**Subscribers**") as Subscribers, the Company as issuer and SREI in relation to the proposed subscription at the total consideration (the "**Total Consideration**") of HK$1,490,000,000) by the Subscribers of 14,900,000,000 new ordinary shares (the "**Subscription Share(s)**") of HK$0.10 each in the share capital of the Company at the subscription price of HK$0.10 per Subscription Share, subject to and upon other terms and conditions contained in the Subscription Agreement together with the transactions contemplated thereunder and all other matters thereof and incidental thereto or in connection therewith be and they are hereby generally and unconditionally approved in all respects;

(b) the Directors (or a duly authorised committee thereof) be and they are hereby generally and specifically authorised to allot and issue (the "**Specific Mandate**") the Subscription Shares. The Specific Mandate is in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company prior to the passing of this resolution; and

(c) the Directors (or a duly authorised committee thereof) be and they are hereby generally and unconditionally authorised to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which, in the opinion of the Directors (or a duly authorised committee thereof), may be necessary, appropriate, desirable or expedient to implement and/or give effect to the terms of, or the transactions contemplated by, the Subscription Agreement and the issue of the Subscription Shares and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the Directors (or a duly authorised committee thereof), in the interests of the Company."

3. "**THAT**, subject to the passing of resolutions numbered 1 and 2 above and the Executive Director (or any delegate of the Executive Director) of the Corporate Finance Division of the Securities and Futures Commission (the "**Executive**") granting to China Minsheng Jiaye and parties acting in concert with it the waiver (the "**Whitewash Waiver**") pursuant to Note 1 to the Notes on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**") waiving any obligation on the part of China Minsheng Jiaye and parties acting in concert with it to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by China Minsheng Jiaye and parties acting in concert with it which would otherwise arise as a result of China Minsheng Jiaye subscribing for the Subscription Shares referred to in resolution numbered 1 above be and is hereby approved, and that any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents as he considers necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to any of the matters relating to, or incidental to, the Whitewash Waiver."

4. "**THAT**, Mr. Shi Jian be and is hereby removed from his position as an executive Director and the Chairman of the Board of the Company with immediate effect upon passing the resolution."

5. "**THAT**, Mr. He Binwu be and is hereby appointed as an executive Director of the Company with effect upon the Subscription Completion."

6. "**THAT**, Mr. Peng Xinkuang be and is hereby appointed as an executive Director of the Company with effect upon the Subscription Completion."

7. "**THAT**, Mr. Chen Chao be and is hereby appointed as an executive Director of the Company with effect upon the Subscription Completion."

8. "**THAT**, Mr. Zhu Qiang be and is hereby appointed as an executive Director of the Company with effect upon the Subscription Completion."

9. "**THAT**, Mr. Zhao Xiaodong be and is hereby appointed as an executive Director of the Company with effect upon the Subscription Completion."

10. "**THAT**, Mr. Shi Janson Bing be and is hereby re-elected as an executive Director of the Company with immediate effect upon passing the resolution."

Yours faithfully
By Order of the Board
SRE Group Limited
Wang Zi Xiong
Co-chairman & Chief Executive Officer

Hong Kong, 16 November 2015

Notes:

1. A member of the Company entitled to attend and vote at the meeting or any adjourned meeting thereof convened by the above notice is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

2. In order to be valid, the proxy form together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

3. Completion and return of the proxy form shall not preclude a member from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.

4. Pursuant to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), all votes of the shareholders of the Company must be taken by poll. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

5. Where there are joint registered holders of any shares of the Company, any one of such joint holders may vote either in person or by proxy in respect of such shares of the Company as if he/she was solely entitled thereto; but if more than one of such joint holders be present at the meeting, the vote of the senior who

tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company.

As at the date hereof, the Board comprises six executive directors, namely Mr. Shi Jian, Mr. Wang Zi Xiong, Mr. Shi Janson Bing, Mr. Ma Dayu, Mr. Li Genfa and Mr. Shi Lizhou; two non-executive directors, namely Mr. Cheung Wing Yui and Mr. Jin Bing Rong and four independent non-executive directors, namely Mr. Zhuo Fumin, Mr. Chan, Charles Sheung Wai, Mr. Yang Chao and Mr. Guoping.

* *For identification purpose only*