

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

---

**FORM 20-F**

---

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2016

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report \_\_\_\_\_.

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-53776.

---

**China Metro-Rural Holdings Limited**

(Exact name of Registrant as specified in its charter)

---

**China Metro-Rural Holdings Limited**

(Translation of Registrant's name into English)

---

**British Virgin Islands**  
(Jurisdiction of incorporation or organization)

---

Suite 2204, 22/F, Sun Life Tower  
The Gateway, 15 Canton Road  
Tsimshatsui, Kowloon, Hong Kong  
(Address of principal executive office)

**Mr. Sio Kam Seng**  
Chief Executive Officer and Chairman of the Board  
China Metro-Rural Holdings Limited  
Suite 2204, 22/F, Sun Life Tower, The Gateway  
15 Canton Road, Tsimshatsui, Kowloon, Hong Kong  
Telephone: (852) 2111 3815

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

(Title of each class)  
Ordinary shares, par value  
US\$0.001 per share

(Name of each exchange on which registered)  
NYSE MKT

Securities registered or to be registered pursuant to Section 12(g) of the Act.

**None**  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

**None**  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the Period covered by the Annual Report.

As of March 31, 2016 there were 73,543,782 shares of the issuer's ordinary shares, \$0.001 par value outstanding and 100,000 shares of the issuer's preferred shares, \$0.001 par value outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☐ Yes ☒ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ☐ Yes ☒ No

Note—Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐

International Financial Reporting Standards as issued  
by the International Accounting Standards Board ☒

Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ☐ Item 17 ☐ Item 18

If this is an Annual Report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS  
DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. ☐ Yes ☐ No

## TABLE OF CONTENTS

<u>INTRODUCTION</u>	<u>Page</u> ii
<u>PRESENTATION OF FINANCIAL INFORMATION</u>	ii
<u>CURRENCY TRANSLATION</u>	iv
<u>CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS</u>	iv
<u>Item 1. Identity of Directors, Senior Management and Advisers</u>	1
<u>Item 2. Offer Statistics and Expected Timetable</u>	1
<u>Item 3. Key Information</u>	1
<u>Item 4. Information on the Company</u>	24
<u>Item 4A. Unresolved Staff Comments</u>	59
<u>Item 5. Operating and Financial Review and Prospects</u>	59
<u>Item 6. Directors, Senior Management and Employees</u>	76
<u>Item 7. Major Shareholders and Related Party Transactions</u>	81
<u>Item 8. Financial Information</u>	88
<u>Item 9. The Offer and Listing</u>	90
<u>Item 10. Additional Information</u>	90
<u>Item 11. Quantitative and Qualitative Disclosures About Market Risk</u>	110
<u>Item 12. Description of Securities Other Than Equity Securities</u>	110
<u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>	111
<u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	111
<u>Item 15. Controls and Procedures</u>	111
<u>Item 16. [Reserved]</u>	112
<u>Item 16A. Audit Committee Financial Expert</u>	112
<u>Item 16B. Code of Business Conduct and Ethics</u>	112
<u>Item 16C. Principal Accountant Fees and Services</u>	112
<u>Item 16D. Exemptions From the Listing Standards for Audit Committees</u>	112
<u>Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	112
<u>Item 16F. Change in Registrant’s Certifying Accountant</u>	113
<u>Item 16G. Corporate Governance</u>	113
<u>Item 16H. Mine Safety Disclosure</u>	113
<u>Item 17. Financial Statements</u>	114
<u>Item 18. Financial Statements</u>	114
<u>Item 19. Exhibits</u>	115

## INTRODUCTION

This Annual Report on Form 20-F relates to our ordinary shares, par value US\$0.001 per share, which are traded on the NYSE MKT under the ticker symbol “CNR”.

In this Annual Report, references to “the Company” or “China Metro” are to China Metro-Rural Holdings Limited, a British Virgin Islands company, and/or, as the context requires, its primary subsidiaries: China Metro-Rural Limited, a limited company incorporated in the Cayman Islands and continued into the British Virgin Islands and Man Sang International Limited, a Bermuda company listed on The Stock Exchange of Hong Kong Limited and/or, as the context requires, the subsidiaries of: China Metro-Rural Limited or Man Sang International Limited. References to “the Merger” are to the merger of Creative Gains Limited, a British Virgin Islands company and a wholly-owned subsidiary of China Metro-Rural Holdings Limited that was acquired by China Metro-Rural Holdings Limited on December 1, 2009 solely for the purpose of entering into the Merger Agreement and effecting the Merger (“Merger Sub”) with and into China Metro-Rural Limited whereby the separate corporate existence of Merger Sub ceased and China Metro-Rural Limited continues as the surviving company and a wholly-owned subsidiary of China Metro-Rural Holdings Limited. The Merger was completed on March 22, 2010. Prior to a name change on March 19, 2010, China Metro-Rural Holdings Limited was named Man Sang International (B.V.I.) Limited, or MSBVI. On July 28, 2010, the Company declared a dividend to its shareholders which was satisfied by way of distribution in specie of the entire equity interest in Man Sang International Limited, or MSIL, held by the Company, represented approximately 494 million ordinary shares of MSIL, or the Distribution, and was completed in August 2010. Subsequent to the Distribution, the Company no longer holds any interests in MSIL and its subsidiaries.

On May 20, 2016, the Company announced plans to effectuate a going-private transaction (the “Privatization”). The Company intends to effectuate the Privatization through a merger with an indirect wholly-owned subsidiary of the Company. Upon the terms and subject to the conditions set forth in an Agreement and Plan of Merger to which the Company is a party, holders of the Company’s ordinary shares—other than certain specified affiliates, other holders and holders who properly perfect applicable dissenters’ rights—will receive US\$1.03 per share in cash, without interest, as a result of the merger. Following the Privatization, the Company plans to terminate the Company’s public reporting obligations (and associated costs) under the Exchange Act and to delist from the NYSE MKT.

## PRESENTATION OF FINANCIAL INFORMATION

This is our seventh filing as a foreign private issuer on Form 20-F, and the seventh filing to include consolidated financial statements of the Company on the basis of International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) giving the effect to our redomiciling transaction and common control merger, as described further below. The acquisition of equity interest of China Metro-Rural Limited, occurred during the year ended March 31, 2010, has been accounted for as a combination of entities under common control in a manner similar to pooling of interests as both the Company and China Metro-Rural Limited were controlled by Mr. Cheng Chung Hing, Ricky immediately prior to and immediately after the Merger. On this basis, the consolidated financial statements of China Metro-Rural Holdings Limited for periods prior to the Merger have been restated to include, to the extent of the equity interest of China Metro-Rural Limited held by Mr. Cheng Chung Hing, Ricky, the assets and liabilities and results of operations of China Metro-Rural Limited for those periods as if China Metro-Rural Holdings Limited had owned China Metro-Rural Limited at the beginning of the financial period reported in the consolidated financial statements or when MSBVI and China Metro-Rural Limited came under common control by Mr. Cheng Chung Hing, Ricky, whichever is later, and all assets and liabilities of China Metro-Rural Limited have been stated at historical carrying amounts. The acquisition by the Company of interest owned by all the shareholders of China Metro, including Mr. Cheng, was treated as an equity transaction at the completion date of the Merger.

On July 28, 2010, the Company announced its decision to distribute its entire equity interest in Man Sang International Limited, or MSIL, to the Company’s shareholders, or Distribution. On November 30, 2012, the Company disposed of its entire equity interest in China Focus City (H.K.) Holdings Limited (“HK CFC”) and, in effect, disposed of its entire equity interest in Qiqihar China Focus City Holdings (Group) Co., Ltd. (“Qiqihar CFC”). In line with the accounting policies of the Company and its subsidiaries, or the Group, the results attributable to MSIL, HK CFC and Qiqihar CFC are shown as discontinued operations in the Group’s consolidated financial statements.

The results of the continuing operations are presented in the consolidated income statements for each of the three years ended March 31, 2016. However, discontinued operations are presented in the consolidated income statements for the same periods as a separate amount, comprising the total of the post-tax profit or loss of the discontinued operations for the period together with any post-tax gain or loss recognized on the measurement to fair value less costs to sell, of the assets/disposal groups constituting discontinued operations.

Percentages and some amounts in this Annual Report have been rounded for ease of presentation. Any discrepancies between totals and the sums of the amounts listed are due to rounding.

## CURRENCY TRANSLATION

In this Annual Report, unless otherwise specified or the context otherwise requires, all references to “U.S. dollars,” “dollars” or “US\$” are to the legal currency of the United States and all references to “H.K. dollars” or “HK\$” are to the legal currency of Hong Kong. Unless otherwise noted, all translations from H.K. dollars to U.S. dollars were made at the rate of HK\$7.8 to US\$1.0, representing the rate for U.S. dollars in New York for cable transfers in Hong Kong dollars as certified for custom purposes by Federal Reserve Bank of New York. On July 22, 2016, the noon buying rate in New York City for cable transfers in H.K. dollars per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York was HK\$7.7568 to US\$1.00. We make no representation that the H.K. dollar or U.S. dollar amounts referred to in this Annual Report could have been or could be converted into U.S. dollars or H.K. dollars, as the case may be, at any particular rate or at all. See “Key Information—Exchange Rate Information” for more detailed information regarding the translation of H.K. Dollars into U.S. dollars.

In addition, this Annual Report contains translations of Renminbi (RMB) amounts into U.S. dollars at specified rates solely for the convenience the readers of this Annual Report. Unless otherwise noted, all translations from RMB to U.S. dollars were made at the rate of RMB6.20 to US\$1.00. On July 22, 2016, the noon buying rate in New York City for cable transfers in RMB per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York was RMB6.6760 to US\$1.00. We make no representation that the RMB or U.S. dollar amounts referred to in this Annual Report could have been or could be converted into U.S. dollars or RMB, as the case may be, at any particular rate or at all. See “Key Information—Exchange Rate Information” for more detailed information regarding the translation of RMB into U.S. dollars.

## CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report which are not historical facts may constitute “forward-looking statements” that involve risks and uncertainties. Forward-looking statements are based on certain assumptions and expectations of future events that are subject to risks and uncertainties. Such statements are made in reliance upon the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act. Actual results and trends may differ materially from historical results or those projected in any such forward-looking statements depending on a variety of factors, including those described under “Risk Factors” beginning on page 6 of this Annual Report.

Our statements regarding market risks, including interest rate risk, foreign exchange rate risk, commodity risk, asset price risk, equity market risk, inflation and deflation, are subject to uncertainty. For example, certain market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

All forward-looking statements in this Annual Report are qualified in their entirety by this cautionary statement, and no person undertakes any obligation to update publicly any forward-looking statement for any reason, except as required by law, even as new information becomes available or other events occur in the future. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

## **PART I**

### **Item 1. Identity of Directors, Senior Management and Advisers**

Not Applicable.

### **Item 2. Offer Statistics and Expected Timetable**

Not Applicable.

### **Item 3. Key Information**

#### **A. Selected Financial Data**

The acquisition of equity interest of China Metro-Rural Limited, occurred during the year ended March 31, 2010, has been accounted for as a combination of entities under common control in a manner similar to pooling of interests as both the Company and China Metro-Rural Limited were controlled by Mr. Cheng Chung Hing, Ricky immediately prior to and immediately after the Merger. On this basis, the consolidated financial statements of China Metro-Rural Holdings Limited for periods prior to the Merger have been restated to include, to the extent of the equity interest of China Metro-Rural Limited held by Mr. Cheng Chung Hing, Ricky, the assets and liabilities and results of operations of China Metro-Rural Limited for those periods as if China Metro-Rural Holdings Limited had been the holding company of China Metro-Rural Limited at the beginning of the financial period reported in the consolidated financial statements or when the Company and China Metro-Rural Limited came under common control by Mr. Cheng Chung Hing, Ricky, whichever is later, and all assets and liabilities of China Metro-Rural Limited have been stated at historical carrying amounts. The acquisition by the Company of interest owned by all the shareholders of China Metro, including Mr. Cheng, was treated as an equity transaction at the completion date of the Merger.

On July 28, 2010, the Company declared a dividend to its shareholders which was satisfied by way of distribution in specie of the entire equity interest in Man Sang International Limited, or MSIL, held by the Company, represented approximately 494 million ordinary shares of MSIL, or the Distribution, and was completed in August 2010. Upon the completion of the Distribution, the Group no longer held any interests in MSIL and has discontinued its pearls and real estate businesses, which was previously operated through MSIL.

On November 30, 2012, the Company disposed of the entire equity interest in HK CFC and, in effect, disposed of the entire equity interest in Qiqihar CFC, which currently represented the Company's entire rural-urban migration and city re-development business. Upon the disposal of HK CFC and Qiqihar CFC in Qiqihar, the Group has discontinued its rural-urban migration and city re-development business in Qiqihar, or Qiqihar Discontinued Operations. The summary of consolidated income statement re-presents the results of continuing operations, where the results of HK CFC and Qiqihar CFC are accounted for as discontinued operations net of taxation for all years presented.

The selected consolidated statements of operation data of the Group presents the results for the five years ended March 31, 2016, 2015, 2014, 2013 and 2012 on the basis of International Financial Reporting Standards as issued by the International Accounting Standards Board. The Company's historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data below should be read in conjunction with our consolidated financial statements and notes thereto, "Item 5. Operating and Financial Review and Prospects" below, and the other information contained in this Form 20-F.

The selected consolidated income statements of the Group for the years ended March 31, 2016, 2015 and 2014 have been derived from our audited consolidated financial statements included elsewhere in this Annual Report. The selected consolidated income statements of the Group for the years ended March 31, 2013 and 2012 have been derived from our audited consolidated financial statements included in the Company's Form 20-F filed with the SEC on July 11, 2014.

	For the years ended March 31,				
	2016	2015	2014	2013	2012
	(HK\$ in thousands, except for number of shares and per share data)				
<b>Income Statements Data:</b>					
<b>Continuing Operations:</b>					
Revenue	220,866	1,400,753	387,016	284,759	765,872
Cost of sales	(31,927)	(817,112)	(133,105)	(217,955)	(467,195)
Gross profit	188,939	583,641	253,911	66,804	298,677
Other income, net	41,206	2,888	16,685	67,535	61,363
Other gains/(losses), net	268,311	40,584	101,412	(69,617)	6,828
Selling expenses	(54,754)	(35,304)	(31,171)	(32,254)	(24,212)
Administrative expenses	(398,386)	(252,334)	(154,948)	(112,504)	(117,922)
Operating profit/(loss)	45,316	339,475	185,889	(80,036)	224,734
Finance (costs)/income—net	(22,281)	7,842	10,492	4,384	389
Share of loss of an associate	(2,368)	(12,813)	(2,258)	(1,606)	(2,456)
Profit/(loss) before income tax	20,667	334,504	194,123	(77,258)	222,667
Income tax expenses	(84,966)	(280,455)	(86,839)	(35,746)	(90,202)
<b>(Loss)/profit for the year from continuing operations</b>	<b>(64,299)</b>	<b>54,049</b>	<b>107,284</b>	<b>(113,004)</b>	<b>132,465</b>
<b>Discontinued operations:</b>					
Profit for the year from discontinued operations, net of tax	—	—	—	17,532	98,594
<b>(Loss)/profit for the year</b>	<b>(64,299)</b>	<b>54,049</b>	<b>107,284</b>	<b>(95,742)</b>	<b>231,059</b>
<b>Attributable to:</b>					
Equity holders of the Company	(49,250)	61,246	104,331	(101,104)	208,986
Non-controlling interests	(15,049)	(7,197)	2,953	5,632	22,073
	(64,299)	54,049	107,284	(95,742)	231,059
<b>(Loss)/earnings per share from continuing and discontinued operations attributable to ordinary shares holders of the Company during the year:</b>					
<b>Basic (loss)/earnings per share</b>					
From continuing operation	HK\$ (0.67)	HK\$ 0.83	HK\$ 1.42	HK\$ (1.61)	HK\$ 1.56
From discontinued operations	—	—	—	HK\$ 0.24	HK\$ 1.40
	HK\$ (0.67)	HK\$ 0.83	HK\$ 1.42	HK\$ (1.37)	HK\$ 2.96
<b>Diluted (loss)/earnings per share</b>					
From continuing operation	HK\$ (1.21)	HK\$ 0.04	HK\$ 0.18	HK\$ (1.61)	HK\$ 1.56
From discontinued operations	—	—	—	HK\$ 0.24	HK\$ 1.40
	HK\$ (1.21)	HK\$ 0.04	HK\$ 0.18	HK\$ (1.37)	HK\$ 2.96
<b>Shares used in computation of:</b>					
<b>Basic (loss)/earnings per share</b>					
From continuing operation	73,544,000	73,544,000	73,544,000	73,544,000	70,536,000
From discontinued operations	73,544,000	73,544,000	73,544,000	73,544,000	70,536,000
<b>Diluted (loss)/earnings per share</b>					
From continuing operation	152,120,000	152,120,000	129,043,000	73,544,000	70,536,000
From discontinued operations	152,120,000	152,120,000	129,043,000	73,544,000	70,536,000
<b>Dividend—(HK\$'000)</b>	—	—	—	—	—



The following table sets forth selected statements of financial position data of the Group as of the dates indicated. The selected consolidated statements of financial position data of the Group as of March 31, 2016 and 2015 have been derived from our audited consolidated financial statements included elsewhere in this Annual Report. The selected consolidated statements of financial position data of the Group as of March 31, 2014 and 2013 have been derived from our audited consolidated financial statements included in the Company's Form 20-F filed with the SEC on July 11, 2014. The selected consolidated statement of financial position data of the Group as of March 31, 2012 has been derived from our audited consolidated financial statements included the Company's Form 20-F filed with the SEC on July 18, 2013.

	As of March 31,				
	2016	2015	2014	2013	2012
(HK\$ in thousands, except for number of shares)					
<b>Statements of Financial Position Data:</b>					
Total non-current assets	1,271,020	1,175,257	969,940	934,448	903,966
Total current assets	6,074,583	4,755,408	3,373,854	2,268,430	2,271,913
Total assets	7,345,603	5,930,665	4,343,794	3,202,878	3,175,879
Total current liabilities	5,382,681	3,773,831	1,974,140	1,267,633	1,506,647
Total non-current liabilities	729,714	747,451	1,046,578	745,830	393,622
Total liabilities	6,112,395	4,521,282	3,020,718	2,013,463	1,900,269
Total equity	1,233,208	1,409,383	1,323,076	1,189,415	1,275,610
Share capital issued and outstanding (Preferred share 200,000; ordinary share 1,000,000,000, US\$0.001 each (approximately HK\$0.0078 each))					
Preferred share	100,000	100,000	100,000	100,000	100,000
Ordinary share	73,543,782	73,543,782	73,543,782	73,543,782	73,543,782

The following table sets forth selected income statements data of Qiqihar Discontinued Operations for the years ended March 31, 2013 and 2012 on the basis of International Financial Reporting Standards as issued by the International Accounting Standards Board. The selected income statements data of Qiqihar Discontinued Operations for the years ended March 31, 2013 and 2012 have been derived from our audited consolidated financial statements included in the Company's Form 20-F filed with the SEC on July 11, 2014.

	For the years ended March 31,	
	2013	2012
(HK\$ in thousands, except for per share data)		
<b>Income Statements Data: Qiqihar Discontinued Operations:</b>		
Revenue	—	147,896
Cost of sales	—	(9,358)
Gross profit	—	138,538
Other income and gains, net	619	—
Expenses	(28,929)	(5,665)
Operating (loss)/profit	(28,310)	132,873
Finance income—net	8,009	238
(Loss)/profit before income tax	(20,301)	133,111
Income tax credits/(expenses)	5,355	(34,517)
(Loss)/profit for the year	(14,946)	98,594
Gain on disposal of discontinued operations	32,478	—
Profit from discontinued operations	17,532	98,594
Attributable to:		
Equity holders of the Company	17,532	98,594
Non-controlling interests	—	—
	17,532	98,594
Earnings per share for profit from Qiqihar Discontinued Operations attributable to equity holders of the Company during the year		
Basic	HK\$ 0.24	HK\$ 1.40
Diluted	HK\$ 0.24	HK\$ 1.40

The following table sets forth selected statements of financial position data of Qiqihar Discontinued Operations as of the dates indicated. The selected statements of financial position data of Qiqihar Discontinued Operations as of November 30, 2012 (the date of the disposal) has been derived from our audited consolidated financial statements included elsewhere in this Annual Report. The selected statements of financial position data of Qiqihar Discontinued Operations as of March 31, 2012 has been derived from our audited consolidated financial statements included in the Company's Form 20-F filed with the SEC on July 18, 2013.

	<u>As of November 30, 2012</u>	<u>As of March 31, 2012</u>
	(HK\$ in thousands)	
<b>Statements of Financial Position Data of Qiqihar Discontinued Operations:</b>		
Total non-current assets	195,049	149,365
Total current assets	941,107	298,035
Total assets	1,136,156	447,400
Total current liabilities	804,116	132,792
Total non-current liabilities	—	—
Total liabilities	804,116	132,792
Total equity	332,040	314,608

#### *Exchange Rate Information*

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since 1983, the Hong Kong dollar has been generally linked to the U.S. dollar at the rate of HK\$7.80 to US\$1.00. Under existing Hong Kong law:

- there are no foreign exchange controls or other laws, decrees or regulations that affect the remittance of dividend payments to U.S. residents; and
- there are no limitations on the rights of non-residents or foreign owners to hold the Company's ordinary or preferred shares.

The Basic Law of Hong Kong, or the Basic Law, which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK\$7.80 to US\$1.00. The Hong Kong government has indicated its intention to maintain the link at that rate. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar.

On May 18, 2005, the Hong Kong Monetary Authority announced the introduction of certain refinements to the operation of the linked exchange rate system. These refinements effectively set the market exchange rate of the Hong Kong dollar against the U.S. dollar within a fixed trading range from HK\$7.75 to HK\$7.85 against US\$1.00. However, the Company cannot assure you that the Hong Kong government will maintain the linked exchange rate system within the range of HK\$7.75 to HK\$7.85, or at all.

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

	Exchange Rate			
	Period End	High	Average (1)	Low
		(HK\$ per US\$)		
Last Five Fiscal Years				
Fiscal Year Ended March 31, 2012	7.7656	7.8087	7.7772	7.7532
Fiscal Year Ended March 31, 2013	7.7629	7.7699	7.7554	7.7493
Fiscal Year Ended March 31, 2014	7.7567	7.7669	7.7571	7.7512
Fiscal Year Ended March 31, 2015	7.7754	7.7686	7.7538	7.7495
Fiscal Year Ended March 31, 2016	7.7563	7.8270	7.7576	7.7495
Last Six Months				
January 2016	7.7876	7.8270	7.7812	7.7505
February 2016	7.7763	7.7969	7.7829	7.7702
March 2016	7.7537	7.7745	7.7604	7.7528
April 2016	7.7570	7.7570	7.7556	7.7537
May 2016	7.7689	7.7689	7.7635	7.7582
June 2016	7.7591	7.7706	7.7620	7.7586

- (1) For the years indicated, the average exchange rates are determined by averaging the exchange rates on the last business day of each month during the relevant period. For the months indicated, the average exchange rates are determined by averaging the exchange rates on each day of the month.

On July 22, 2016, the exchange rate was HK\$7.7568 per US \$1.00.

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

		Exchange Rate		
	Period End	High	Average (1)	Low
		(RMB per US\$)		
Last Five Fiscal Years				
Fiscal Year Ended March 31, 2012	6.2975	6.5477	6.3970	6.2935
Fiscal Year Ended March 31, 2013	6.2108	6.3879	6.2787	6.2105
Fiscal Year Ended March 31, 2014	6.2164	6.2273	6.1220	6.0402
Fiscal Year Ended March 31, 2015	6.1990	6.2741	6.1952	6.1107
Fiscal Year Ended March 31, 2016	6.5499	6.5932	6.3706	6.1927
Last Six Months				
January 2016	6.3752	6.5932	6.5726	6.5219
February 2016	6.5525	6.5795	6.5501	6.5154
March 2016	6.4480	6.5499	6.5027	6.4480
April 2016	6.4738	6.5004	6.4754	6.4571
May 2016	6.5798	6.5798	6.5259	6.4738
June 2016	6.6459	6.6481	6.5982	6.5590

- (1) For the years indicated, the average exchange rates are determined by averaging the exchange rates on the last business day of each month during the relevant period. For the months indicated, the average exchange rates are determined by averaging the exchange rates on each day of the month.

On July 22, 2016, the exchange rate was RMB6.6760 per US\$1.00.

## **B. Capitalization and Indebtedness**

Not applicable.

## **C. Reasons for the Offer and Use of Proceeds**

Not applicable.

## **D. Risk Factors**

### **Risks Related to Our Business**

***Our ability to execute our business strategy and grow on our agricultural logistics businesses and rural-urban migration and city re-development business will depend in part on the success of the PRC's agricultural industry and the economic growth and implementation of government policies, and if the PRC agricultural industry and economy do not continue to grow at a strong rate or the local government fails to implement its policies, our business may suffer.***

We have established logistics platforms in Tieling, Liaoning Province called "China Northeast Logistics City—Tieling", Dezhou, Shandong Province called "China Northeast Logistics City—Dezhou", Hengyang, Hunan Province called "China Glorious City—Hengyang", Zhoukou, Henan Province called "China Glorious City—Zhoukou", Handan, Hebei Province called "China Glorious City—Handan" and Nanyang, Henan Province called "China Glorious City—Nanyang", which are available to regional and international traders based upon an open and free market system for the mutual benefit of sellers and buyers. The logistics platforms are designed to facilitate the marketing of products provided or desired by willing buyers and sellers. Agriculture products have risk exposure, including weather, climate and seasonal price fluctuations. Farmers are exposed to risks associated with output and input prices, production volume and risks associated with income from non-farm sources.

In the past, we established a rural-urban migration and city re-development business in Qiqihar, Heilongjiang Province called "China Focus City—Qiqihar", which was available to Qiqihar as well as regional traders and residents which was to be comprised of commercial, business, residential and governmental districts. China Focus City—Qiqihar was designed to accommodate the local government's plan to relocate the administration center of Qiqihar. Following the disposal of China Focus City—Qiqihar in the fiscal year ended March 31, 2013, we have continued to carry out this business through existing locations. The rural-urban migration and city re-development business has risk exposure including change of local and national economic climates and government policies.

Our results of operation may be significantly adversely affected by these risks.

***The PRC Government may introduce new "green laws" with environmental challenges that may have an adverse effect on our actual and prospective tenants and customers, and therefore could adversely affect our operations.***

There are few quantitative estimates of projected environmental degradation associated with intensive agricultural production. Yet environmental cleanup will pose a competing challenge for investment in agriculture. Abundant use of coal to meet the increasing demands for energy and rapid growth of cities with associated growth of automobiles and municipal waste have been large sources of incredibly high levels of air pollution in China.

Acid rain and water use and pollution associated with industrialization and urbanization are other major sources of water constraint. Disposal of industrial waste and organic fertilizer runoffs has been the major source of water pollution. Yet the health impact has been generally contained due to the widespread availability of safe drinking water. Still, water pollution is increasing water shortages and increasing the cost of provision of drinking water since this often requires that people move to safer areas.

China's per capita energy demand and increased use of automobiles associated with urbanization will critically shape the environmental prospects in China. Reduction in environmental pollution will require the PRC Government to encourage the replacement of outdated and environmentally polluting technologies, increasing energy efficiency and emission standards comparable to those used in Europe and the U.S., and price polluting industrial inputs to reflect the cost of pollution cleanup. The PRC Government would also need to consider imposing taxes on such items as coal, based on sulfur and ash content, investing in alternative technologies in public transport and domestic energy use, such as the greater use of gas for cooking, planning and regulating industrial, and public and household uses more effectively. Each of these events could have a material adverse effect on our operations.

***The results of our operations substantially depend on our ability to execute our business strategy and on economic growth in the regions of our trade center projects.***

The results of our operations substantially depend on the successful execution of our business strategy to attract and retain high quality tenants, achieve market rental rates and improve the surrounding infrastructure. Our success will also depend upon continuing growth in the economic activities region, as well as regions surrounding properties planned for future development, and our ability to compete with other similar businesses. We may face challenges in implementing our strategy, and our ability to achieve our goals may be adversely affected by various factors, some of which are beyond our control. If we are not able to execute our business strategy or successfully compete with other similar businesses, our business, results of operations and financial condition will be materially and adversely affected.

***We may not be able to increase our revenues from servicing and assignments of development rights, sales or leases of properties or achieve satisfactory rental rates from period to period.***

Our revenues from the sales of trade center units in fiscal year 2014 and fiscal year 2015 were HK\$205.0 million and HK\$1,400.7 million, respectively. Our revenue from the leases of properties decreased from HK\$4.8 million in the fiscal year 2014 to HK\$2.9 million in the fiscal year 2015 and our revenue from property management services decreased from HK\$5.4 million in the fiscal year 2014 to HK\$2.8 million in the fiscal year 2015. Our income from hotel operation in the fiscal year 2015 was HK\$1.1 million. Our revenue from servicing and assignments of development rights in the fiscal year 2014 was HK\$171.8 million. Our revenue in the fiscal year ended March 31, 2016 was HK\$220.9 million, which includes revenue from sales of trade centers units, leases of properties, property management services and hotel income of HK\$210.0 million, HK\$4.2 million, HK\$4.2 million and HK\$2.5 million, respectively.

Each servicing and assignment of development rights was negotiated with independent third parties on a case by case basis and the premium may be significantly affected by economic climates and other factors at the time of negotiation. We therefore cannot assure you that, in the future, we will be able to negotiate a premium that is higher than a rate we have already achieved in previous periods, nor we will be able to increase the number of successful negotiations with independent third parties.

Our certain commission lease arrangements provide us the right to lease to, and receive rental income from, third parties for the trade center units that we have sold to the purchasers of these units, for a period of approximately three years. However, if we are unable to lease the trade center units for which we have entered into such commission lease arrangements, we will not receive any rental income from these units. Under these commission lease arrangements, we are not obligated to pay any rent during the three-year period. Such transactions are accounted for as a sale and operating leaseback given that as part of the sale transaction, the Company disposes of substantially all risks and rewards of owning the property. In concluding that substantially all risks and rewards of owning the property have been transferred, the Company considers the short period of the lease and the expected future rentals it could earn by letting out these properties, which are insignificant relative to the value of the property. We cannot assure you that, in the future, we will be able to charge sufficiently high rental rates. As a result, failure to lease the trade center units or to lease the units at satisfactory rental rates would adversely affect our profits for the applicable period.

***Some of our buyers may not be able to obtain mortgages from banks and the inability to secure financing may adversely impact the Company's stock price.***

Currently a significant portion of our sales are settled by one-off payment from buyers. The remaining buyers purchase spaces in our trade centers through mortgages with banks with typically at least a 50% down payment. Due to the volume involved and the mortgage approval process, some of the buyers that intend to purchase spaces in our trade centers through mortgage financing may not be successful in their mortgage applications for a variety of reasons. In the event that the applicants do not successfully receive mortgage financing, the Company may not be able to recover its accounts receivable from those buyers on time, the Company's financials may be impaired, and the Company's stock price may go down.

***We currently rely on China Glorious City—Zhoukou, China Glorious City—Hengyang, China Glorious City—Handan and China Glorious City—Nanyang for all of our rural-urban migration and city re-development business revenues and China Northeast Logistics City—Dezhou and China Northeast Logistics City—Tieling for all of our agricultural logistics business revenues. We may be unsuccessful in expanding our projects in these cities, and if we are unsuccessful, our stock price may fall.***

Although our agricultural logistics business has properties under development and planned for future development, we currently rely on China Northeast Logistics City—Dezhou and China Northeast Logistics City—Tieling for our agricultural logistics business revenues, and China Glorious City—Zhoukou, China Glorious City—Hengyang, China Glorious City—Handan and China Glorious City—Nanyang for our rural-urban migration and city re-development business. These revenue sources may entail a higher level of risk as compared to other operators of trade centers that have revenue-generating properties spread over several different locations or have a more diverse range of property investments. In the event of a circumstance which adversely affects the operations or business of China Glorious City—Zhoukou, China Glorious City—Hengyang, China Glorious City—Handan, China Glorious City—Nanyang, China Northeast Logistics City—Dezhou and China Northeast Logistics City—Tieling, or their attractiveness to tenants and developers, we will not have income from other properties in our agricultural logistics business and rural-urban migration and city re-development business to mitigate any ensuing loss. A concentration of investments in only few locations will cause us to be highly susceptible to a downturn in regional agricultural, property or logistics industry. In addition, any property damage at any one of China Glorious City—Zhoukou, China Glorious City—Hengyang, China Glorious City—Handan, China Glorious City—Nanyang, China Northeast Logistics City—Dezhou and China Northeast Logistics City—Tieling, resulting from fire or other causes, or a downturn in the industrial materials, agricultural or manufacturing industries in China, may have a material adverse effect on our business, financial condition and results of operations. Further, we cannot assure that China Glorious City—Zhoukou, China Glorious City—Hengyang, China Glorious City—Handan, China Glorious City—Nanyang, China Northeast Logistics City—Dezhou and China Northeast Logistics City—Tieling will continue to attract tenants or developers to generate revenue, or that we will be successful in the future. Although we have projects planned for future development in fiscal years 2017, 2018 and 2019, we cannot assure that we will be able to successfully obtain state-owned land use rights for all or any portion of land necessary for the development of these projects, complete the development of these projects or generate revenue and net income from these projects at all or in amounts that we expect.

***If we are unable to obtain the state-owned land use rights for our properties planned for future development, we will not be able to develop these planned projects.***

Our Hong Kong subsidiary, China Metro-Rural Exchange Limited, signed a framework agreement with Tieling Municipal Government in 2006. Pursuant to this master agreement, the Tieling Municipal Government has identified land which is suitable for our development strategy to develop logistics platforms called “China Northeast Logistics City—Tieling”.

Our Hong Kong subsidiary, China Metro-Rural Development Limited, signed a framework agreement with Dezhou Municipal Government in 2010. Pursuant to this framework agreement, the Dezhou Municipal Government has identified land which is suitable for our development strategy to develop logistics platforms called “China Northeast Logistics City—Dezhou”.

We signed a framework agreement with Hengyang Municipal Government in 2012. Pursuant to this framework agreement, the Hengyang Municipal Government has identified land which is suitable for our development strategy to develop logistics platforms called “China Glorious City—Hengyang”.

We signed a framework agreement with Zhoukou Municipal Government in the fiscal year ended March 31, 2013. Pursuant to this framework agreement, the Zhoukou Municipal Government has identified land which is suitable for our development strategy to develop logistics platforms called “China Glorious City—Zhoukou”.

We signed a framework agreement with Handan Municipal Government in the fiscal year ended March 31, 2016. Pursuant to this framework agreement, the Handan Municipal Government has identified land which is suitable for our development strategy to develop logistics platforms called “China Glorious City—Handan”.

We signed a framework agreement with Nanyang Municipal Government in the fiscal year ended March 31, 2016. Pursuant to this framework agreement, the Nanyang Municipal Government has identified land which is suitable for our development strategy to develop logistics platforms called “China Glorious City—Nanyang”.

However, the signing of these master framework agreements do not guarantee that we will obtain the land identified therein, which will be transferred by public tender, auction or listing for sale. We cannot assure that the relevant land administration authorities will grant us the appropriate land use rights or issue the relevant land use right certificates in a timely manner, or at all. Moreover, we cannot assure that we will be successful in our bidding for the plots of land or that we will be able to obtain the land at our desired price. If we are not successful in our bidding for the plots of land in the future or fail to obtain land use rights for all or any portion of such land, we may not be able to develop any future projects.

***We may experience conflicts of interest with China South City Holdings Limited as a result of contracts to which certain of our major shareholders are a party.***

In addition to their investments in the Company, Mr. Cheng Chung Hing, Ricky, owns all the outstanding shares of Accurate Gain Developments Limited and his brother, Mr. Cheng Tai Po, owns all of the outstanding shares of Proficient Success Limited. As of March 31, 2016, Accurate Gain Developments Limited, Proficient Success Limited, Mr. Cheng Chung Hing, Ricky, and Mr. Cheng Tai Po owned an aggregate of 2,451,116,976 of the 7,999,321,999 outstanding shares of China South City Holdings Limited, or China South City. China South City is a leading developer and operator of large-scale integrated logistics and trade centers in China, providing a comprehensive trading platform for domestic and international wholesale suppliers, buyers, manufacturers, distributors and end-users of products from raw materials to finished products. It sells and leases well-designed, high quality trade center units for businesses to display and sell their products. China South City also provides their clients with one-stop convenient supply chain solutions that include a full range of facilities and services such as offices, residential, conference and exhibition facilities, hotels and restaurants, warehousing and on-site logistics services, property management, e-commerce, banking, on-site government services in a bid to offer. Mr. Cheng Chung Hing, Ricky, is also the Co-Founder, Co-Chairman and Executive Director of China South City. In addition, Mr. Leung Moon Lam is a Co-Founder and Executive Director of China South City.

Mr. Cheng Chung Hing, Ricky, and Mr. Leung Moon Lam are each a party to a deed of option and undertaking with China South City. Pursuant to the deed of option and undertaking of which we are not a party, each of Mr. Cheng Chung Hing, Ricky, and Mr. Leung Moon Lam has granted to China South City an option to acquire all their respective effective interests in China Northeast Logistics City—Tieling at any time until September 30, 2014 or two years after the completion of the development of China Northeast Logistics City—Tieling (whichever is later) so long as: (i) for Mr. Cheng Chung Hing, Ricky, he remains a controlling shareholder of China South City or a director of China South City; or (ii) for Mr. Leung Moon Lam, he remains a director of China South City. China South City also has the right to buy all the respective interests held by Mr. Cheng Chung Hing, Ricky, and/or Mr. Leung Moon Lam in China Northeast Logistics City—Tieling before they are offered to any other third party. The price payable by China South City for such interests shall be determined with reference to the fair market value of such interests as determined by an internationally recognized valuer.

If China South City decides, after due consideration, not to exercise the option but wishes to develop China South City's business operations in Liaoning Province, which may result in competition between China South City and China Northeast Logistics City—Tieling, China South City shall be entitled to, at any time within the above option period, require Mr. Cheng Chung Hing, Ricky (so long as he remains a controlling shareholder of China South City or a director of China South City), and/or Mr. Leung Moon Lam (so long as he remains a director of China South City) to dispose of all their respective interests in China Northeast Logistics City—Tieling to independent third parties as soon as practicable and in any event prior to the occurrence of any competition between China South City and China Northeast Logistics City—Tieling. As a result, there may be conflicts of interest presented by Mr. Cheng Chung Hing, Ricky's, and Mr. Leung Moon Lam's relationships with both us and China South City, which may adversely affect our opportunities, prospects and results of operations.

In connection with our Merger in 2010, Mr. Cheng Chung Hing, Ricky and Mr. Leung Moon Lam sought confirmation from China South City as to whether China South City would opt to exercise its rights of first offer granted to it by both Mr. Cheng and Mr. Leung to purchase all their respective effective interests in China Northeast Logistics City—Tieling. Following that request, China South City held an extraordinary general meeting in which its independent shareholders approved, confirmed and ratified its non-exercise of the rights of first offer granted to it by each of Mr. Cheng and Mr. Leung in relation to the Merger. While the rights of first offer no longer exist with respect to the completed Merger, the option to exercise the rights of first offer remains in effect with respect to subsequent transfers until September 30, 2014 or two years after the completion of the development of China Northeast Logistics City—Tieling (whichever is later).

***Six of our PRC subsidiaries, China Northeast Logistics City Co. Ltd., or China Tieling Northeast, China Northeast Logistics City Dezhou Co., Ltd., or China Dezhou Northeast, China Glorious City (Hengyang) Co. Ltd., or China Hengyang Glorious, China Glorious City Investments (Zhoukou) Co., Ltd., or China Zhoukou Glorious Investments, China Glorious City Strategic (Zhoukou) Co., Ltd., or China Zhoukou Glorious Strategic, and China Glorious City (Shenzhen) Industries Co., Ltd., or China Glorious City Shenzhen, are wholly foreign owned enterprises, and are subject to restrictions imposed by relevant PRC laws and regulations.***

China Tieling Northeast, China Dezhou Northeast, China Hengyang Glorious, China Zhoukou Glorious Investments, China Zhoukou Glorious Strategic and China Glorious City Shenzhen were approved by their respective local authorities and filed with the PRC Ministry of Commerce as wholly foreign owned enterprises and, accordingly, are subject to regulations and restrictions applicable to foreign investment real estate enterprises, including, but not limited to, restrictions on their ability to obtain loans within and outside of the PRC, as well as restrictions on the conversion and sale of foreign exchange into their capital accounts. In addition, China Tieling Northeast, China Dezhou Northeast, China Hengyang Glorious, China Zhoukou Glorious Investments and China Zhoukou Glorious Strategic, as foreign investment real estate enterprises, are required to maintain registered capital levels at 50% or more of their total investment. As of March 31, 2016, the registered total investment in China Tieling Northeast, China Dezhou Northeast, China Hengyang Glorious, China Zhoukou Glorious Investments and China Zhoukou Glorious Strategic were US\$49.80 million, US\$49.90 million, US\$59.99 million, US\$39.99 million and US\$19.99 million respectively, including registered capital of US\$35.00 million, US\$49.90 million, US\$30.00 million, US\$20.00 million and US\$10.00 million respectively, representing approximately 70%, 100%, 50%, 50% and 50% of their respectively registered total investments. Currently, China Tieling Northeast, China Dezhou Northeast, China Hengyang Glorious, China Zhoukou Glorious Investments and China Zhoukou Glorious Strategic, our project companies for our properties planned for future development in Liaoning, Shandong, Hunan and Henan, are our only subsidiaries categorized as foreign investment real estate enterprises.

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

Our results of operations are and will continue to be affected by the cyclical nature of the real estate, agricultural and logistics industries in the PRC. Property values and rents are affected by, among other factors, the supply and demand of comparable properties, interest rates, inflation, the rate of economic growth, tax laws and political and economic developments in the PRC. Our tenants and customers may be affected by the weather, climate, import and export of agricultural products and machines, price of the agricultural products and the fluctuation of the RMB. We cannot assure that property values and rents will not decline. In addition, increased competition brought by any additional supply could adversely affect trade center rents and occupancy rates as well as sales prices for new trade center units. Our trade centers depend upon the growing demand for industrial and agricultural materials and logistics services in China. A significant downturn in the PRC economy could adversely affect such demand, as well as the demand by suppliers for trade center units.

***Our results of operations may fluctuate from period to period due to variations in the proceeds received from sales and leases of trade center units and the fair value of our investment properties.***

Our results of operations tend to fluctuate from period to period depending upon the proportion and gross floor area, or GFA, of trade center units that are sold or leased, and when our projects in various stages of development are completed. We generally sell trade center units in the initial stages following completion of a project subject to the then-current market conditions. The number of trade centers that we are able to develop or complete during any given period is limited due to the substantial capital requirements for land acquisition and construction, as well as the lengthy development periods required before positive cash flows may be generated. In addition, the trade centers that we have developed or that are under development are large-scale, integrated, multi-phase projects to be developed over the course of several years. The selling prices and rental rates of trade center units are also subject to fluctuation, which may impact our sales proceeds and rental income and, accordingly, our revenues for any given period. In this regard, rental rates also vary among trade centers, according to market demand and dates of completion of the various trade centers, which affects rental rates because we generally offer tenants of newly completed trade center units preferential rental rates and rent-free periods in order to increase occupancy rates of these trade centers. Our rental rates for future periods may also be affected by similar incentive plans, and may be adversely affected by cyclical changes in market demand.

Our results of operations may also fluctuate due to changes in the fair value of our trade center units and other facilities retained for rental income and capital appreciation of investment properties. We reassess the fair value of our investment properties each year. Property valuation typically requires the use of certain bases and assumptions with respect to a variety of factors, including supply and demand of comparable properties, the rate of economic growth in the location of the property, interest rates, inflation and political and economic developments in the PRC.



***Our operations are subject to extensive governmental regulations, and we are susceptible to changes in policies related to the real estate, agricultural and logistics industries in the PRC.***

In order to develop and operate a trade center development, we must obtain various permits, licenses, certificates and other approvals from the relevant administrative authorities at various stages of our trade center development, including land use rights documents, planning permits, construction permits and certificates or confirmation of completion and acceptance. Each approval is dependent on the satisfaction of certain conditions.

We cannot assure that we will be able to fulfill the pre-conditions necessary to obtain required governmental approvals, or that we will be able to adapt to new laws, regulations or policies that may come into effect from time to time with respect to the real estate, agricultural or logistics industries in general or the particular processes with respect to the grant of approvals in China. There may also be delays on the part of relevant administrative bodies in reviewing our applications and granting approvals. We may also be subject to periodic delays in our trade center development projects due to building moratoria in the areas in which it operates or plans to operate. If we are unable to obtain, or experience material delays in obtaining, the requisite governmental approvals, or if a building moratorium is implemented at one or more of our project sites, the development and sale of our projects could be substantially disrupted, which would result in a material adverse effect on our business, financial condition and results of operations. Further, we cannot assure that the implementation of laws and regulations by relevant authorities, or the interpretation or enforcement of such laws and regulations, will not cause us to incur additional costs, which could have a material adverse effect on our business, financial condition and results of operations.

***We face competition from other agricultural logistics and industrial materials trade centers.***

Our logistics city projects may face competition from other agricultural and industrial materials trade centers in China. The greatest concentration of industrial materials trade centers in China is in Pearl River Delta, Yangtze River Delta and the Manchuria area. The agricultural, industrial materials and finished goods featured at these competing trade centers include agricultural products, building materials, automobile and accessories and small goods. In addition, there may be an increase in supply of industrial materials trade centers in Guangdong and elsewhere in China, such as Shenzhen and Guangzhou, in the future.

The greatest concentration of agricultural trade centers in China is in Manchuria and Shanghai. The agricultural products for which these trade centers compete include raw materials, corns, wheat, fertilizers, seeds and pesticides, agricultural machinery and tools, which are concentrated in the Manchuria area. The Shanghai Agriculture Equity Exchange (SAEE) was established on September 8, 2009, and the management anticipates that similar exchanges will be established in the future.

This competition may affect our ability to attract and retain tenants and buyers and may reduce the rents or prices we are able to charge. We cannot assure that we will prevail in competing with other trade center operators. Our inability to compete effectively could adversely affect our business, financial condition and results of operations.

***Demand for our trade centers may be negatively affected by uncertainty regarding the recovery of the global economy, which may have a material adverse effect on our business, results of operations and financial condition.***

Uncertainty regarding the recovery of the global economy may diminish the demand from many parts of the world and increase volatility in credit and equity markets. If these conditions persist or worsen, regardless of any efforts by various governmental authorities to stimulate the economy, they may adversely affect the availability, terms and cost of borrowings in the future, including financing necessary to complete our properties planned for future development, as well as the demand for our trade center units. Because our operations are capital intensive, and rely principally on cash flows from operations and bank borrowings, we cannot assure that the global economic downturn will not have a material adverse effect on our business, results of operations, financial condition and cash flow.

The timing and nature of any recovery in the global economy remain uncertain, and there can be no assurance that market conditions will improve in the near future or that our results will not be adversely affected. Furthermore, if economic conditions become worse, the development of our properties could be adversely affected and materially delayed.

***We may not be able to renew or re-obtain qualification certificates as real estate developers upon expiration of our current qualification certificate, which could adversely affect our business.***

Our subsidiaries located in Tieling City, Dezhou City, Hengyang City, Zhoukou City, Handan City and Nanyang City are required to hold certain qualification certificates to enable us to conduct business as real estate developers.

On December 22, 2010, China Tieling Northeast obtained from the Liaoning Housing and Urban Rural Construction Bureau a Qualification Certificate for Real Estate Development Enterprise in Grade III with an effective term until December 21, 2013 allowing China Tieling Northeast to undertake property development in the PRC. On April 17, 2014, this qualification certificate was renewed for a term until March 3, 2017. After the expiration of its current qualification certificate, China Tieling Northeast will need to renew this qualification certificate or apply for a qualification certificate in a higher grade.

The Dezhou Housing and Urban Rural Construction Bureau has granted interim qualification certificates to China Dezhou Northeast and Dezhou Northeast City Property Co., Ltd. confirming that China Dezhou Northeast and Dezhou Northeast City Property Co., Ltd. are allowed to undertake the development of properties in the PRC. The interim qualification certificate of China Dezhou Northeast expired on September 30, 2014, but the qualification certificate was then renewed until December 31, 2016. Upon expiration of the interim qualification certificate, China Dezhou Northeast will be required to renew its qualification certificate.

The Hunan Housing and Urban Rural Construction Bureau has granted an interim qualification certificate to China Hengyang Glorious confirming that China Hengyang Glorious is allowed to undertake the development of properties in the PRC. The interim qualification certificate of China Hengyang Glorious expired on January 23, 2016, but the qualification certificate was then renewed until January 23, 2017. Upon expiration of the interim qualification certificate, China Hengyang Glorious will be required to renew its qualification certificate.

The Zhoukou Housing and Urban Rural Construction Bureau has granted interim qualification certificates to China Zhoukou Glorious Investments, China Zhoukou Glorious Strategic and Zhoukou Huayu Industries Co., Ltd. confirming that China Zhoukou Glorious Investments, China Zhoukou Glorious Strategic and Zhoukou Huayu Industries Co., Ltd. are allowed to undertake the development of properties in the PRC. The interim qualification certificates of China Zhoukou Glorious Investments and China Zhoukou Glorious Strategic will expire on July 8, 2017. The interim qualification certificate of Zhoukou Huayu Industries Co., Ltd. expired on July 8, 2016 and the entity is in the process of renewing it. Upon expiration of the interim qualification certificates, China Zhoukou Glorious Investments and China Zhoukou Glorious Strategic will be required to renew their qualification certificates.

The Handan Construction Bureau has granted an interim qualification certificate to China Glorious City (Handan) Industries Co., Ltd., or China Handan Glorious, confirming that China Handan Glorious is allowed to undertake the development of properties in the PRC. The interim qualification certificate of China Handan Glorious will expire on March 24, 2017. Upon expiration of the interim qualification certificate, China Handan Glorious will be required to renew its qualification certificate.

The Nanyang Housing and Urban Rural Construction Committee has granted an interim qualification certificate to China Glorious City (Nanyang) Industries Co., Ltd., or China Nanyang Glorious, confirming that China Nanyang Glorious is allowed to undertake the development of properties in the PRC. The interim qualification certificate of China Nanyang Glorious will expire on April 14, 2018. Upon expiration of the interim qualification certificate, China Nanyang Glorious will be required to renew its qualification certificate.

We cannot assure that these entities will be able to renew the current qualification certificates or obtain a new qualification certificates in a timely manner, or at all. If these entities or other project companies for our future projects are unable to renew the current qualification certificates or obtain new qualification certificates, they may not be permitted by the PRC Government to continue to engage in property development activities associated with the development of their integrated logistics trade center business, which would materially and adversely affect our business, results of operations and financial condition.

***The appraisal value of our properties may materially differ from the value we could receive in an actual sales transaction.***

Property valuations include a subjective determination of certain factors relating to the properties, such as their relative market position, their financial and competitive strengths, location and their physical condition. Further, the valuation of the properties is not an indication of, and does not guarantee, a sale price corresponding to such valuation, currently or in the future. Unforeseen changes in a particular integrated logistics and trade center development or in general or local economic conditions could affect the value of our properties, and the resulting amounts we obtain may be materially lower than the amount set forth in the valuations.

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

We are subject to a variety of environmental laws and regulations during the construction of our development projects. The particular environmental laws and regulations which apply to any given project development site vary greatly according to the site's location, the site's environmental condition, the present and former uses of the site, as well as adjoining properties. Environmental laws and conditions may result in project delays, may cause us to incur substantial compliance and other costs and can prohibit or severely restrict project development activity in environmentally sensitive regions or areas. In addition, we cannot predict the impact that unforeseeable environmental contingencies or new or changed laws or regulations may have on us or our trade center projects.

As required by PRC law, independent environmental consultants have conducted environmental impact assessments at all of our construction projects. Although the environmental investigations conducted to date have not revealed any environmental liability that would be expected to have a material adverse effect on our business, financial condition or results of operations, it is possible that these investigations did not reveal all environmental liabilities or their extent, and there may be material environmental liabilities of which we are unaware. Upon completion of each project, the relevant environmental authorities will inspect the site to ensure compliance with all applicable environmental standards and prepare a report to confirm such compliance. We cannot assure that such internal control procedures will be effective in preventing non-compliance. If any portion of the project is found to be non-compliant with relevant environmental standards or if we are unable to obtain necessary licenses for releasing contaminants, it may be subject to suspension of a portion of our operations as well as fines and penalties.

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

Our sales of trade center units and residential properties are subject to land appreciation tax in the PRC. In addition, sales of properties in our properties planned for future development may be subject to land appreciation tax. Land appreciation tax is payable on the gain, representing the balance of the proceeds received on such sale, after deducting various prescribed items, including sums paid for acquisition of land use rights, the direct costs and expenses of the development of the land and construction of buildings and supplementary facilities or the appraised price of any previous buildings and structures existing on the land and taxes related to the assignment of the real property. Under applicable PRC laws and regulations, land appreciation tax is chargeable on the gain at progressive rates ranging from 30% to 60%. Certain exemptions may be available for the sale of ordinary residential properties if the appreciation of land value does not exceed 20% of the total deductible items as provided in the relevant tax laws.

On December 28, 2006, the State Administration of Taxation issued the Notice on Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises, or the LAT Notice, which became effective on February 1, 2007. The LAT Notice provides that land appreciation tax should be settled in stages during a real estate development project and sets forth, among other things, methods of calculating land appreciation tax and a time frame for settlement of land appreciation tax. We have accrued all land appreciation tax payable on our property sales and transfers in accordance with the progressive rates specified in relevant tax laws mentioned above. We have paid such land appreciation tax expenses based on the total sales amount of the contracts it entered into with purchasers of trade center units for each fiscal year at the rates of ranging from 1.5% to 3% set by the local municipal tax authorities. As of March 31, 2015, we in aggregate paid land appreciation tax to the local municipal tax authorities an accumulated amount of HK\$126.5 million and we made an accumulated provisions for land appreciation in the amounts of HK\$281.7 million. Except for China Northeast Logistics City—Dezhou, the relevant tax authorities have yet to commence the assessment of our land appreciation taxes in order to collect the additional tax payments from it. During the fiscal year ended March 31, 2015, China Northeast Logistics City—Dezhou has completed a final assessment for land appreciation tax for one of its projects. In the fiscal year ended March 31, 2016, we paid land appreciation tax to the local municipal tax authorities in the amount of HK\$45.2 million and made a provision in the amount of HK\$141.3 million. Our cash flows and financial condition will be affected if the PRC tax authorities do proceed to collect the land appreciation tax for which we have made provisions. In addition, provisioning for land appreciation tax requires our management to use a significant amount of judgment with respect to the appreciation of land value and the allowability of deductible items for income tax purposes. If the land appreciation tax provisions we have made are substantially lower than the actual land appreciation tax amounts assessed by the tax authorities, our results of operations and cash flows will be materially and adversely affected.

***We may be required to forfeit land to be developed if it does not comply with the terms of our land grant contract.***

Under PRC laws, if a developer fails to develop land according to the terms of its land grant contract (including those relating to payment of fees, land use or the time for commencement and completion of the development of the land), the relevant land administration authorities may issue a warning to or impose a penalty on the developer or require the developer to forfeit the land. Further, if the development is delayed for longer than one year, the developer may be restricted from bidding for any new land. Thus, if we were to delay development on the lands acquired for China Northeast Logistics City—Tieling, China Northeast Logistics City—Dezhou, China Glorious City—Hengyang, China Glorious City—Zhoukou, China Glorious City—Handan and China Glorious City—Nanyang (and if these restrictions were applied to us), we may be restricted from bidding for other land designated to us for development. We have not received such a warning or been subject to such a penalty or threat of forfeiture in the past. However, we cannot assure that circumstances leading to possible forfeiture of land or delays in the completion of the above projects will not occur in the future.

In addition, although the local governments are responsible in the framework agreements for relocating existing residents on the land and associated relocation expenses, the local governments may experience delays in their negotiation process with the existing residents of the land which may result in delays in the development of any future properties by us. With respect to any future properties of ours, we will be responsible for land payments only following the successful relocation of existing residents by and at the cost of the local governments.

***We may not be able to commence or complete our properties planned for future real estate projects on time or within budget.***

Our real estate projects involve acquiring land use rights for large plots of land, many of which have existing structures and residents, from municipal and provincial governments of the PRC. Other properties we may develop in the future may also involve similar circumstances. Acquiring these development rights, converting them into land use rights and committing the financial and managerial resources to develop the land involve significant risks. Before a real estate development project generates any revenue, we must make a variety of material expenditures, including to acquire the development rights and to construct the required infrastructure.

It generally takes several years for a planned real estate project to generate revenue, and we cannot assure you that our real estate projects will achieve positive cash flow. As a result, our current and future real estate development activities may be exposed to the following risks:

- we may lease or sell developed properties at below expected rental rates or sales prices, and we may experience delays in the sale or leasing of developed properties;
- we may be unable to complete construction of our real estate projects on schedule, or on budget, due to a variety of factors including shortages of materials, equipment, technical skills and labor, adverse weather conditions, natural disasters, labor disputes, disputes with contractors and sub-contractors, accidents, changes in government priorities and policies, changes in market conditions, delays in the relocation process, delays in obtaining the requisite licenses, permits and approvals from the relevant authorities and other problems and circumstances, resulting in increased debt service expense and construction costs;
- occupancy rates, rents and sales prices at our real estate properties may fluctuate depending on a number of factors, including market and economic conditions, and may result in our investments being less profitable than we expected or not profitable at all;
- the services rendered by our contractors may not always meet our quality requirements, and negligence or poor work quality by any contractors may result in defects in our buildings or trade center units, which could in turn cause us to suffer financial losses, harm our reputation or expose us to third-party claims;
- since it normally takes several years for us to complete a real estate project, we expect that we will be affected by increases in the costs of construction materials and the costs of other goods and services, most significantly labor costs;
- we may delay, or change the structure of, real estate projects and as a result we may lose deposits paid to participate in the land tender process or fail to recover expenses already incurred; and
- we may be unable to obtain, or face delays in obtaining, required zoning, land use, building, occupancy, and other governmental permits, rights and authorizations, which could result in increased costs with respect to a project.

The occurrence of any of these circumstances, most of which are beyond our control, could delay the completion of our real estate projects, which could adversely affect our business, financial condition and results of operations, which in turn could cause the market value of our shares to decline.

***We may not be able to obtain adequate funding for our property under development or any properties planned for future development.***

To date, for investment activities, we have relied primarily on bank borrowings and other loans for our funding and liquidity requirements; and to a lesser extent on cash inflows from operations. For further information on our available funding and liquidity resources, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.” As of March 31, 2016, we had net current assets of HK\$691.9 million and the outstanding balance of our total indebtedness (including trade payables, other payables and accruals, excluding shareholder’s loans and loans from a non-controlling interest) amounted approximately HK\$3,263.3 million, which included primarily bank and other borrowings, trade payables, other payables and accruals and convertible bonds in the amounts of HK\$717.2 million, HK\$1,809.3 million and HK\$736.8 million, respectively. All of the HK\$717.2 million of our total bank and other borrowings were due within one year or on demand. The projected total investment for China Northeast Logistics City—Tieling, China Northeast Logistics City—Dezhou, China Glorious City—Hengyang, China Glorious City—Zhoukou, China Glorious City—Handan and China Glorious City—Nanyang could be up to an amount of approximately US\$2 billion, US\$5 billion, US\$2 billion, US\$4 billion, US\$2 billion and US\$2 billion, respectively.

We also have available cash flow from our operations, but such amounts are not likely to be sufficient to fund our future development requirements. Due to the nature of our trade center development business, it may from time to time experience periods of net cash outflows, when imbalances may arise between the timing of cash inflows from rentals and sales of trade center units and our cash outflows relating to the construction of properties and purchases of state-owned land use rights. We may require additional bank borrowings and, if necessary, offerings of debt and equity securities for a significant portion of our liquidity requirements to finance the construction costs of these projects, which are expected to be completed in stages. We cannot assure that we will be able to obtain additional financing at competitive costs, or at all. In addition, although we have not experienced any difficulties in the past, we may not be able to renew our existing loan facilities granted by banks in the PRC on satisfactory terms, or at all. If we are unable to obtain necessary additional financing or renew existing loan facilities, we will not be able to complete future projects, and our business development could be severely disrupted.

We cannot assure that we will be able to obtain sufficient funding to finance intended purchases of land use rights, develop future projects or meet other capital needs as and when required at a commercially reasonable cost or at all. Failure to obtain adequate funding at a commercially reasonable cost may limit our ability to commence new projects or to continue the development of existing projects or may increase our borrowing costs.

In previous years, the PRC Government introduced a number of measures and regulations to restrict the ability of property developers to raise capital through external financing and other methods. Because the local authorities treat our project companies, as real property developers, we have been subject to these measures and regulations with respect to China Tieling Northeast, China Dezhou Northeast, China Hengyang Glorious, China Zhoukou Glorious Investments, China Zhoukou Glorious Strategic, Zhoukou Huayu Industries Co., Ltd, China Handan Glorious and China Nanyang Glorious.

***We may incur substantial additional indebtedness in the future.***

As of March 31, 2016, our debt-to-equity ratio (total bank and other borrowings and convertible bonds/total equity) was approximately 117.9%. We may incur additional indebtedness to complete additional projects and grow our supporting infrastructure, and the amount of such additional indebtedness may be substantial. We will face more risks if we or our subsidiaries incur additional debt. For example, the additional debt could:

- limit our ability to satisfy our obligations under our borrowings;
- increase our vulnerability to adverse general economic and industry conditions;

- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund project developments, working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;
- restrict us from making strategic acquisitions or exploring business opportunities;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds or make guarantees; and
- increase the cost of additional financing.

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

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

The bank loan agreements of our PRC subsidiaries contain a number of significant restrictive covenants. These covenants restrict, among other things, our PRC subsidiaries' ability and the ability of their subsidiaries to incur additional debt or make guarantees, incur liens, pay dividends or distributions on its or its subsidiaries' capital stock, prepay certain indebtedness, sell or transfer property or assets, make investments and merge or consolidate with another company.

If our PRC subsidiaries are unable to comply with the restrictions and covenants in its current or future loan and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to our PRC subsidiaries, accelerate the outstanding debt and/or terminate the agreements, as the case may be. If the underlying obligation relates to our PRC subsidiaries' secured borrowings, the lender can enforce the mortgages over the property securing the defaulted loan. If any of these events occur, our PRC subsidiaries cannot assure that their assets and cash flows would be sufficient to repay all of their indebtedness, or that they would be able to obtain alternative financing on terms that are favorable or acceptable to our PRC subsidiaries.

Our PRC subsidiaries are not currently in breach of any of these covenants.

In addition, the terms and conditions of convertible bonds we issued during the fiscal year ended March 31, 2013, contained a number of significant restrictive covenants as well as financial covenants. These covenants restricted our ability and our non-PRC incorporated subsidiaries' ability to incur additional secured debts, incur liens, pay dividends distribution on its capital stock, prepay certain indebtedness, sell or transfer assets and merge or consolidate with another company.

If we are unable to comply with these restrictions and covenants, there could be a default under the terms of these convertible bonds. In the event of default under these convertible bonds, the holder of the convertible bonds could accelerate the repayment of these convertible bonds. If this occurs, we cannot assure that our assets and cash flows would be sufficient to repay all of our indebtedness, or that we would be able to obtain alternative financing on terms that are favorable or acceptable to us.

We have obtained waivers from the holders of these convertible bonds in prior years in respect of any non-compliance of covenants for the fiscal years ended March 31, 2013, 2014, 2015 and 2016. No waiver has been obtained for subsequent periods as of July 1, 2016 as it is uncertain as to whether a waiver is required.

***We depend on China Metro-Rural Limited's founding shareholders. Our business and growth prospects may be severely disrupted if we lose the support and service of all or any one of them.***

Our success and growth depends on the efforts of the founding shareholders of the China Metro-Rural Limited (Mr. Cheng Chung Hing, Ricky and Mr. Leung Moon Lam). These founding shareholders are critical to our success because of their vision for us and their industry knowledge and relationships. If we were to lose their support, our relationships with bankers, government officials, potential tenants and industry personnel could be adversely affected. We may not be able to replace these founding shareholders easily or at all. As a result, the loss of any of these founding shareholders, whether because any one or more of them become unwilling to continue in their present capacities with us, develop disagreements between each other, leave to join a competitor or form a competing business, or other reasons, would severely disrupt our business and growth prospects.

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

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

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

***We may suffer losses caused by natural disasters or accidents and these losses may not be covered by insurance.***

Our business may be adversely affected due to the occurrence of typhoons, severe storms, floods, wildfires, earthquakes or other natural disasters, or accidents (including fire or explosion) or similar events in the areas where we operate our trade centers. We do not carry any property insurance. Should a loss occur, we could lose all or a portion of the capital invested in a property, as well as the anticipated future revenues from the property. Nevertheless, we would remain obligated for any bank borrowings or other financial obligations related to the property. It is also possible that if we were to obtain insurance, third-party insurance carriers would not be able to maintain reinsurance sufficient to cover any losses that may be incurred. Any material uninsured loss could materially and adversely affect our business, financial condition and results of operations.

***We are a holding company and rely on dividends paid by our subsidiaries for our funding requirements.***

As a holding company, we depend upon the receipt of dividends from our subsidiaries to pay dividends to our shareholders and satisfy our obligations. The ability of our direct and indirect subsidiaries to pay dividends to their shareholders (including us) is subject to relevant shareholders' agreements or constitutional documents and restrictions contained in the loan agreements of such subsidiaries or other instruments.

In addition, the ability of our subsidiaries in the PRC to pay dividends to their shareholders is subject to the requirements of PRC law. PRC regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Dividends may not be paid until cumulative prior years' losses are made up. As a result, if our subsidiaries in the PRC incur losses, such losses may impair their ability to pay dividends or other distributions to us, which would restrict our ability to pay dividends and to service our indebtedness. Our PRC subsidiaries are required to make monthly contributions to the social security plan and the housing reserve fund maintained for their employees, consisting of pension benefits, personal injury insurance, maternity insurance and medical and unemployment benefits. In addition, some of our PRC subsidiaries may be required to set aside at least 10% of their after-tax profits based on PRC accounting standards in accordance with their articles of association and PRC law each year to their PRC statutory reserve until the cumulative amount of such reserve reaches 50% of their registered capital. As of March 31, 2016, we have PRC statutory reserve of approximately HK\$150,214,000 for our PRC subsidiaries.

***Any occurrence of avian influenza or other widespread public health problems could adversely affect our business, financial condition and results of operations.***

In December 2003, January 2004, March 2013 and November 2014, there were media reports regarding the spread of the avian influenza, among birds and in particular poultry, as well as some isolated cases in countries outside Hong Kong and PRC of transmission of the virus to humans. We cannot assure that there will not be a serious outbreak of a contagious disease in the PRC in the future. A renewed outbreak of SARS, pandemic avian influenza or other widespread public health problems in the PRC could have a material adverse effect on the PRC economy and our property market generally, and on our business, financial condition and results of operations.

***Restrictions on foreign currency exchange may limit our ability to obtain and remit foreign currency or to utilize our revenues effectively.***

We currently receive substantially all of our revenues in Renminbi through our ownership and operation of China Glorious City—Zhoukou, China Glorious City—Hengyang, China Northeast Logistics City—Dezhou and China Northeast Logistics City—Tieling. However, certain of our expenses, including labor costs for our employees in Hong Kong, rental expenses for our office space in Hong Kong and advertising expenses for advertising in Hong Kong and overseas media are denominated in foreign currencies, mostly Hong Kong dollars and U.S. dollars. As a result, any restriction on currency exchange may limit our ability to use revenues generated in Renminbi to pay our foreign currency denominated expenses and service and repay our foreign currency denominated indebtedness. Our ability to satisfy our foreign currency denominated debt obligations depends upon the ability of our subsidiaries incorporated in the PRC to obtain and remit sufficient foreign currency. Our subsidiaries incorporated in the PRC must present certain documents to the designated foreign exchange bank before they can obtain and remit foreign currency out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with the relevant local office of the State Administration for Foreign Exchange). We cannot assure that our subsidiaries incorporated in the PRC will not encounter difficulty in the future when undertaking these activities. If our PRC subsidiaries are unable to remit dividends to us, we would be unable to make payments of interest and/or principal on our foreign currency denominated indebtedness.

***We have exposure to general real estate investment risks.***

Real estate investments, like many other types of long-term investments, have historically experienced significant fluctuations in value, and specific market conditions and cycles may result in occasional or permanent reductions in the value of our investments. Property cash flows and the marketability and value of real property will depend on many factors beyond our control, including, without limitation:

- adverse changes in international, national, regional and local economic and market conditions;
- changes in interest rates or financial markets;
- fluctuating local real estate conditions and changes in local laws and regulations;
- changes or promulgation and enforcement of governmental regulations relating to land use and zoning, environmental, occupational and safety matters;
- changes in real estate tax rates and other operating expenses;
- existence of uninsured or uninsurable risks; and
- natural disasters, acts of war or terrorism.

***The cyclical nature of the real estate industry could adversely affect our results of operations.***

The results of our real estate operations are affected by the cyclical nature of the real estate industry in the PRC. Property values and rents are affected by, among other factors, supply and demand of comparable properties, interest rates, unemployment rates, inflation, the rate of economic growth, tax laws and political and economic developments in the PRC. We cannot assure you that property values and rents will not decline in the future. A significant downturn in demand for our units would result in a material adverse effect on our business, financial condition and results of operations.



***Our operations are subject to extensive governmental regulations, and we are susceptible to changes in policies related to the real estate market in the PRC.***

In order to develop and operate our projects, we must obtain various permits, licenses, certificates and other approvals from the relevant administrative authorities at various stages of development, including land use rights documents, planning permits, construction permits, and certificates or confirmations of completion and acceptance. Each approval is dependent on the satisfaction of certain pre-conditions. We cannot assure you that we will be able to fulfill the pre-conditions necessary to obtain required governmental approvals, or that we will be able to adapt to new laws, regulations or policies that may come into effect from time to time with respect to the real estate market in general or the particular processes with respect to the grant of approvals in China. There may also be delays on the part of relevant administrative bodies in reviewing our applications and granting approvals. If we fail to obtain, or experience material delays in obtaining, the requisite governmental approvals, the development, sale and lease of our projects could be substantially disrupted, which would result in a material adverse effect on our business, financial condition and results of operations.

***Our principal shareholder has substantial control over us and can affect decisions made by our shareholders.***

As of July 1, 2016, our principal shareholder, Mr. Cheng Chung Hing, Ricky, together with his affiliates, controls 43,082,427 of our outstanding ordinary shares and 100,000 of our outstanding preferred shares, which together represented 46,273,652, or 60.30%, of our outstanding voting shares.

Mr. Cheng Chung Hing, Ricky has the requisite voting power to exert substantial influence over actions which require shareholder approval and generally to direct our affairs, including decisions regarding the election of directors, mergers, consolidations and the sale of all or substantially all of our assets and other significant corporate actions. The announcement of the Privatization on May 20, 2016, is an example of this risk. This concentration of ownership may discourage, delay or prevent a change in control of the Company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of the Company and might reduce the price of our shares. These actions, including the Privatization, may be taken even if they are opposed by our other shareholders.

***Because we do not expect to pay dividends in the foreseeable future, you must rely on the appreciation in price of our ordinary shares for a return on your investment.***

Except for the Distribution, we have never declared or paid any dividends on our ordinary shares. We intend to retain any future earnings to finance the growth and development of our business and do not anticipate paying any dividends in the foreseeable future. Any dividends paid will be solely at the discretion of our Board of Directors, and the amount of any dividends will depend on various factors, including, without limitation, market conditions, our strategic plans and prospects, our business opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations, payments by subsidiaries of cash dividends to us and legal, tax and regulatory restrictions, and other factors that our directors deem significant from time to time. Accordingly, the return on your investment in us will likely depend entirely upon any future price appreciation of our ordinary shares. Our ordinary shares may not appreciate in value or maintain the price at which you purchased units. You may not realize a return on your investment and may even lose the entire amount of your investment.

***It may be difficult to effect service of process upon us or our directors or to enforce any judgments obtained from non-PRC courts, and it therefore may be difficult for you to resolve any grievance you have with us.***

Our operations are substantially conducted and substantially all of our assets are located within China. Our directors reside in Hong Kong and China, where substantially all of their assets are located. Investors may experience difficulties in effecting service of process upon us, our directors or our senior management in China and it may not be possible to effect such service of process outside China. In addition, our PRC legal counsel has advised us that China does not have treaties with the United States and many other countries providing for reciprocal recognition and enforcement of court judgments. Therefore, recognition and enforcement in China of judgments of a court in the United States or certain other jurisdictions may be difficult or impossible.

## **Risks Related to Our Ordinary Shares**

### ***The market price and trading volume of our ordinary shares may be volatile.***

The market price of our ordinary shares may become highly volatile and subject to wide fluctuations. In addition, trading volume in our ordinary shares may fluctuate and cause significant price variations to occur. Some of the factors that could result in fluctuations in the price or trading volume of our ordinary shares include, among other things: actual or anticipated changes in our current or future financial performance and general market and economic conditions. We cannot assure you that the market price of our ordinary shares will not fluctuate or decline significantly.

### ***Future sales of our ordinary shares could have an adverse effect on our stock price.***

We cannot predict the effect, if any, of future sales of ordinary shares, or the availability of shares for future sales, on the market price of our ordinary shares. Sales of substantial amounts of ordinary shares, or the perception that such sales could occur, may adversely affect prevailing market prices for our ordinary shares. In addition, a large supply of saleable ordinary shares, such as those underlying warrants issued in our May 2011 offering and August 2011 placements, those underlying convertible bonds and warrants issued in our August 2012 placement, or those underlying convertible bonds issued in our December 2013, January 2014 and March 2014 placements or other shares eligible for future sale, may adversely affect the prevailing market prices for our ordinary shares.

### ***Our convertible bonds issued in August 2012, December 2013, January 2014 and March 2014 could prevent the acquisition or sale of our business.***

The conversion price of the convertible bonds and the exercise price of the warrants issued in our August 2012 placement may be decreased if we issue securities below certain prices or if we fail to meet certain financial targets set forth in the warrants and convertible bonds. The exercise prices of the bonds issued in December 2013, January 2014 and March 2014 do not include this feature. The exercise of any of the convertible bonds and warrants could further dilute the holdings of existing shareholders.

In addition, the issuance of our ordinary shares to the investors upon exercise of the offered warrants and convertible bonds could have an anti-takeover effect because such issuance will make it more difficult for, or discourage an attempt by, a party to obtain control of the Company by tender offer or other means. Such issuance of ordinary shares will increase the number of shares entitled to vote, increase the number of votes required to approve a change of control of the Company, and dilute the interest of a party attempting to obtain control of the Company.

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

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

All of our business is conducted in, and all of our revenues are derived from China. The economy of China differs from the economies of most developed countries in many respects, including, but not limited to: structure; governmental involvement; level of development; growth rate of gross domestic product, or GDP; capital re-investment; allocation of resources; control of foreign currency; and rate of inflation. The economy of China has been transitioning from a planned economy to a market-oriented economy. Although in recent years the PRC Government has implemented measures emphasizing the utilization of market forces for economic reform, a substantial portion of productive assets in China is still owned by the PRC Government. In addition, the PRC Government continues to play a significant role in regulating industries by imposing industrial policies. It also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

Policies and other measures taken by the PRC Government to regulate the economy could have a significant negative impact on economic conditions in China, with a resulting negative impact on our business. For example, our business, results of operations and financial condition may be materially and adversely affected by:

- new laws and regulations and the interpretations of those laws and regulations;
- the introduction of measures to control inflation or stimulate growth;
- changes in the rate or method of taxation; or
- the imposition of additional restrictions on currency conversions and remittances abroad.

***Previous macroeconomic measures taken by the PRC Government to manage economic growth could have adverse economic consequences, and recent fiscal stimulus measures may not be successful in offsetting a decline in the rate of economic growth in the PRC.***

In previous years, the PRC Government had periodically taken measures to slow economic growth to a more manageable level, in response to concerns about China's historical high growth rate in industrial production, bank credit, fixed investment and money supply. These measures have included macroeconomic measures to control perceived over investment in the real property market. More recently, along with a decline in economic growth worldwide, the rate of growth of the PRC economy has slowed down. In 2015, China's real GDP grew by a rate of an estimated 6.9% as compared to a rate of 7.4% and 7.7% in 2014 and 2013, respectively. In response to the recent global economic downturn, and a resulting slowdown in the PRC economy, the PRC Government has adopted increasingly flexible macroeconomic policies, including an announced fiscal stimulus package, aimed at offsetting the slowdown brought by the financial crisis. These policies include measures specifically designed to encourage development of the domestic property market, which represents a reversal on policies implemented since 2003 designed to tighten control on the real property market. However, we cannot assure you that the PRC Government's fiscal stimulus package will be successful in offsetting the slowdown resulting from the current economic downturn and deterioration in the global credit markets, or that restrictive measures already in place will not adversely affect our business.

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

Our business is operated through, and our revenues are generated by, our operating subsidiaries in the PRC. Substantially all of our assets are located in the PRC. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC Government has issued laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their nonbinding nature, interpretation and enforcement of these laws and regulations involve uncertainties. In addition, as the legal system in China develops, changes in such laws and regulations, their interpretation or their enforcement may have a negative effect on our business, financial condition and results of operations.

***We are subject to risks of fluctuations in the exchange rate between the Renminbi and foreign currencies.***

From 1994 until recently, the conversion of Renminbi into U.S. dollars was based on rates set by the People's Bank of China, which were set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. On July 21, 2005, the People's Bank of China announced a reform of its exchange rate system and revalued the Renminbi to RMB8.11 to US\$1.00. Under the reform, the Renminbi would no longer be effectively linked to the United States dollar but instead would be allowed to fluctuate within a narrow and managed band against a basket of foreign currencies. We cannot assure you that such exchange rate will not fluctuate widely against the U.S. dollar, Hong Kong dollar or any other foreign currency in the future. The PRC Government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. However, we cannot predict if or when these further reforms will occur. Although currently a substantial portion of our revenues, expenses and bank loans are denominated in Renminbi, we do have loans that are denominated in Hong Kong dollars and convertible bonds that are denominated in United States dollars. Fluctuation of the value of Renminbi will affect the amount of our non-Renminbi debt service in Renminbi terms since we have to convert Renminbi into non-Renminbi currencies to service our foreign debt. Since a substantial portion of income and profits are denominated in Renminbi, any appreciation of Renminbi will also increase the value of, and any dividends payable on, our shares in foreign currency terms. Conversely, any depreciation of Renminbi will decrease the value of, and any dividends payable on, our shares in foreign currency terms.

***If the custodians or authorized users of controlling non-tangible assets of the Company, including corporate chops and seals, fail to fulfill their responsibilities or misappropriate or misuse these assets, the Company's business and operations could be materially and adversely affected.***

Under PRC law, legal documents for corporate transactions, including contracts that the Company's business relies on, are executed using the chops or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with the relevant branch of the Administration of Industry and Commerce ("AIC").

Although the Company usually utilizes chops to enter into contracts, the designated legal representatives of each of the Company's PRC subsidiaries have the apparent authority to enter into contracts on behalf of such entities without chops and bind such entities. All designated legal representatives of the Company's PRC subsidiaries are members of the Company's senior management team who have signed employment agreements with the Company or its PRC subsidiaries under which they agree to abide by various duties they owe to the Company.

In order to maintain the physical security of the Company's chops, the chops are generally stored in secured locations accessible only by the authorized personnel in the legal or finance departments of each of the Company's subsidiaries. The Company's designated legal representatives generally do not have access to the chops, but if such designated legal representatives were to obtain the chops, in spite of these protections, the Company may encounter difficulties in maintaining control over the relevant entities. Although the Company has implemented internal control procedures to monitor the use of corporate chops, such procedures may not be able to prevent all instances of abuse or negligence.

If any of the designated legal representatives obtains and misuses or misappropriates the Company's chops and seals or other controlling intangible assets for whatever reason, the Company could experience disruption to its normal business operations. If a designated legal representative obtains control of the chops in an effort to obtain control over the entity, the Company or its PRC subsidiary would need to pass a new shareholder or board resolution to designate a new legal representative and the Company would need to take legal action to seek the return of the chops, apply for new chops with the relevant authorities, or otherwise seek legal redress for the violation of the representative's fiduciary duties to the Company, which could involve significant time and resources and divert management attention away from the Company's business. In addition, the affected entity may not be able to recover corporate assets that are sold or transferred out of the Company's control in the event of such a misappropriation if a transferee relies on the apparent authority of the representative and acts in good faith.

***The audit report included in this Annual Report is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.***

Auditors of companies that are registered with the US Securities and Exchange Commission and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the US Public Company Accounting Oversight Board (United States) (the "PCAOB") and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards. Because we have substantial operations within the PRC and the PCAOB is currently unable to conduct inspections of the work of our auditors as it relates to those operations without the approval of the Chinese authorities, our auditor's work related to our operations in China is not currently inspected by the PCAOB.

This lack of the PCAOB inspections of audit work performed in China prevents the PCAOB from regularly evaluating audit work of any auditors that was performed in China including that performed by our auditors. As a result, investors may be deprived of the full benefits of the PCAOB inspections.

The inability of the PCAOB to conduct inspections of audit work performed in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures as compared to auditors in other jurisdictions that are subject to the PCAOB inspections on all of their work. In May 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the China Securities Regulatory Commission ("the CSRC") and the PRC Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by the PCAOB, the CSRC or the PRC Ministry of Finance in the United States and the PRC, respectively. The PCAOB continues to be in discussions with the CSRC and the PRC Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with the PCAOB and audit PRC companies that trade on the U.S. exchanges.

***If additional remedial measures are imposed on the Big Four PRC-based accounting firms, including an affiliate of our independent registered public accounting firm, associated with administrative proceedings brought by the SEC alleging the firms' failure to meet specific criteria set by the SEC, we could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act.***

In December 2012, the SEC instituted administrative proceedings against the Big Four PRC-based accounting firms, including an affiliate of our independent registered public accounting firm, alleging that these firms had violated U.S. securities laws and the SEC's rules and regulations thereunder by failing to provide to the SEC the firms' work papers related to their audits of certain PRC-based companies that are publicly traded in the United States. On January 22, 2014, an initial administrative law decision was issued, sanctioning these accounting firms and suspending them from practicing before the SEC for a period of six months. The sanction will not take effect until there is an order of effectiveness issued by the SEC. Any Commission endorsement or other determination itself could be appealed by the accounting firms in the U.S. court system. On February 12, 2014, the Big Four PRC-based accounting firms initiated a review of the initial administrative law decision to the SEC. We were not and are not involved in the proceedings brought by the SEC against these accounting firms. On February 6, 2015, the Big Four PRC-based accounting firms each agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC and audit US-listed companies. The settlement required the Big Four PRC-based accounting firms to follow the SEC's specified procedures and to seek to provide the SEC with access to the Big Four PRC-based accounting firms' audit documents via the China Securities Regulatory Commission in response to future document requests by the SEC made through the China Securities Regulatory Commission. If potential document productions depart from the criteria pursuant to the SEC's specified procedures, the SEC retains authority to impose a variety of additional remedial measures on the Big Four PRC-based accounting firms, depending on the nature of such departure.

If the Big Four PRC-based accounting firms are subject to the additional remedial measures, because our auditor having its PRC-based affiliate carrying out audit procedures on our Mainland China operations, our ability to file our financial statements in compliance with SEC requirements could be impacted.

#### **Risk Related to U.S. Taxation**

***There is a risk that we could be treated as a U.S. domestic corporation for U.S. federal income tax purposes, which could result in a significant U.S. federal income tax liability to us.***

Section 7874(b) of the Internal Revenue Code, or Section 7874(b), generally provides that a corporation organized outside the United States which acquires, directly or indirectly, pursuant to a plan or series of related transactions substantially all of the assets of a corporation organized in the United States will be treated as a domestic corporation for U.S. federal income tax purposes if shareholders of the acquired corporation own at least 80% (of either the voting power or the value) of the stock of the acquiring corporation after the acquisition. If Section 7874(b) applied to the liquidation of Man Sang Holdings Inc. in 2009, then we would be subject to U.S. federal income tax on our worldwide taxable income following the liquidation.

We believe that under Section 7874(b), we should not be treated as a domestic corporation for U.S. federal income tax purposes because Man Sang Holdings Inc. transferred no assets to us (other than rights to a potential tax refund, which was insignificant). However, the IRS may assert that we are subject to U.S. federal income tax on our worldwide income after the liquidation.

***U.S. holders of our ordinary shares and warrants may suffer adverse tax consequences if we are characterized as a Passive Foreign Investment Company.***

There is a risk that we will be classified as a PFIC for U.S. federal income tax purposes. Our status as a PFIC could result in a reduction in the after-tax return to U.S. holders of our ordinary shares and warrants and may cause a reduction in the value of such shares and warrants. We will be classified as a PFIC for any taxable year in which (i) at least 75% of our gross income is passive income or (ii) at least 50% of the average value of all of our assets produce or are held for the production of passive income. For this purpose, passive income includes dividends, interest, royalties and rents that are not derived in the active conduct of a trade or business. Based on the projected composition of our income and valuation of our assets, we do not believe we were a PFIC for the year ended March 31, 2016. The U.S. Internal Revenue Service or a U.S. court could determine that we are a PFIC in any year. If we are classified as a PFIC, U.S. holders of our ordinary shares and warrants could be subject to greater U.S. income tax liability than might otherwise apply, imposition of U.S. income tax in advance of when tax would otherwise apply, and detailed tax filing requirements that would not otherwise apply. The PFIC rules are complex and U.S. holders of our ordinary shares and warrants are urged to consult their own tax advisors regarding the possible application of the PFIC rules to them in their particular circumstances. See "Material United States Federal Income Tax Consequences."

## **Item 4. Information on the Company**

### **A. History and Development of the Company**

China Metro-Rural Holdings Limited, or China Metro, was incorporated in the British Virgin Islands as an international business company under the name Man Sang International (B.V.I.) Limited, or MSBVI, under the International Business Companies Act on August 14, 1995, and automatically re-registered as a business company on January 1, 2007 pursuant to The BVI Business Companies Act, 2004. Prior to August 25, 2009, MSBVI was a wholly-owned subsidiary of Man Sang Holdings, Inc., or MSHI, a United States domestic issuer incorporated in the State of Nevada whose ordinary shares were listed on the NYSE MKT (formerly known as the American Stock Exchange). On August 25, 2009, at a general meeting, the shareholders of MSHI resolved that MSHI liquidated and dissolved, whereby we were effectively redomiciled from the United States to the British Virgin Islands and, as part of this transaction (the “Reorganization”), MSBVI became the successor of MSHI and a non-United States domestic issuer whose ordinary shares are listed on the NYSE MKT. From its inception in August 1995 through the completion of the dissolution and liquidation on August 25, 2009, MSBVI was a wholly-owned subsidiary of MSHI. As a result of the dissolution and liquidation of MSHI on August 25, 2009, MSBVI became the listed holding company of our group. On March 19, 2010, MSBVI was renamed China Metro-Rural Holdings Limited. Our ordinary shares are traded on the NYSE MKT under the ticker symbol “CNR”.

Upon the effective date of the Reorganization, the Company and its subsidiaries continued to conduct the business previously conducted by MSHI and its subsidiaries (including the Company). Although the dissolution and liquidation of MSHI resulted in the cessation of MSHI as the holding company of the Group, the dissolution and liquidation had no material impact on our financial condition or operating results, other than the costs incurred in connection with its dissolution and liquidation. As the Company contractually assumed all rights, title, obligations and liabilities of MSHI upon the terms and subject to the conditions of the agreement and plan of the dissolution and liquidation, there was a continuation of the risks and benefits to the ultimate controlling owners that existed prior to the dissolution and liquidation of MSHI. Accordingly, the Reorganization has been accounted for as a reorganization of entities under common control in a manner similar to pooling-of-interests. On this basis, the Company has been treated as the holding company of MSHI in all periods presented in the financial statements rather than from the effective date of the Reorganization.

Subsequent to the Reorganization, pursuant to an agreement and plan of merger, or the Merger Agreement, dated as of February 19, 2010, by and among the Company, China Metro-Rural Limited and Creative Gains Limited (“Creative Gains”) (a wholly-owned subsidiary of the Company), Creative Gains was merged with and into China Metro (the “Merger”). Immediately after the Merger, Creative Gains ceased and China Metro became a wholly-owned subsidiary of the Company. The acquisition of equity interest of China Metro-Rural Limited has been accounted for as a combination of entities under common control in a manner similar to pooling of interests as both the Company and China Metro-Rural Limited were controlled by Mr. Cheng Chung Hing, Ricky immediately prior to and immediately after the Merger. On this basis, the consolidated financial statements of China Metro-Rural Holdings Limited for periods prior to the Merger have been restated to include, to the extent of the equity interest of China Metro-Rural Limited held by Mr. Cheng Chung Hing, Ricky, the assets and liabilities and results of operations of China Metro-Rural Limited for those periods as if the Company had owned China Metro-Rural Limited at the beginning of the financial period reported in the consolidated financial statements or when the Company and China Metro-Rural Limited came under common control by Mr. Cheng Chung Hing, Ricky, whichever is later, and all assets and liabilities of China Metro-Rural Limited have been stated at historical carrying amounts. The acquisition by the Company of interest owned by all the shareholders of China Metro, including Mr. Cheng, was treated as an equity transaction at the completion date of the Merger.

As a result of the Merger, our principal operating subsidiaries are China Metro-Rural Limited and its subsidiaries as well as Man Sang International Limited and its subsidiaries.

In addition, on July 28, 2010, the Company declared a dividend to its shareholders which was satisfied by way of distribution in specie of the entire equity interest in Man Sang International Limited, or MSIL held by the Company, represented approximately 494 million ordinary shares of MSIL and was completed in August 2010. Upon the completion of the Distribution, the Group no longer held interest in MSIL and has discontinued its pearls and real estate businesses, which was previously operated through MSIL.

On November 30, 2012, the Company disposed of its entire interest in CFC HK and, in effect, disposed of its entire interest in Qiqihar CFC, which represented Qiqihar Discontinued Operations. The Group continues to carry out its rural-urban migration and city re-development business through other subsidiaries. Selected financial data of Qiqihar Discontinued Operations is set forth above in “Item 3. Key Information—A. Selected Financial Data”.

On May 20, 2016, the Company announced plans to the Privatization. The Company intends to effectuate the Privatization through a merger with an indirect wholly-owned subsidiary of the Company. Upon the terms and subject to the conditions set forth in an Agreement and Plan of Merger to which the Company is a party, holders of the Company's ordinary shares—other than certain specified affiliates, other holders and holders who properly perfect applicable dissenters' rights—will receive US\$1.03 per share in cash, without interest, as a result of the merger. Following the Privatization, the Company plans to terminate the Company's public reporting obligations (and associated costs) under the Exchange Act and to delist from the NYSE MKT.

## **B. Business Overview**

China Metro-Rural Holdings Limited, or China Metro, is focused on being one of the leading developers and operators of large scale, integrated agricultural logistics and trade centers in China that facilitate a relationship between sellers and buyers of agricultural products and small goods, provide relevant physical platform and timely marketing information and intelligence, provide a transparent and competitive market price discovery mechanism and provide infrastructure to enhance the living standards of those from the rural area. In addition, China Metro also carries out rural-urban migration and city re-development business, which consists of development and sales of commercial and residential properties and servicing and assignments of development rights to independent third party developers.

On November 30, 2012, the Company disposed of its entire interest in HK CFC and, in effect, disposed of its entire entity interest in Qiqihar CFC, which at the time, represented the Company's entire rural-urban migration and city re-development business. Accordingly, the rural-urban migration and city re-development business carried out by HK CFC and Qiqihar CFC have been classified as discontinued operations ("Qiqihar Discontinued Operations"). The Group continues to carry out its rural-urban migration and city re-development business through other subsidiaries.

### ***Agricultural logistics business***

Our agricultural logistics business is comprised of (1) development and operation of integrated agricultural logistics and trade centers and supporting facilities; and (2) property management which engages in the management of developed properties within the logistics platforms—known as China Northeast Logistics Cities. We currently are developing two locations in the PRC, namely Northeast Logistics City in Tieling City, Liaoning Province, or China Northeast Logistics City—Tieling, and Dezhou Northeast Logistics City in Dezhou City, Shandong Province, or China Northeast Logistics City—Dezhou.

Each China Northeast Logistics City is an integrated agricultural logistics and trade center platform which mainly focuses on agriculture industry, including agricultural products, agricultural machineries, fertilizers and chemicals, and small goods. Our projects, China Northeast Logistics City—Tieling and China Northeast Logistics City—Dezhou, are currently operating.

Each China Northeast Logistics City will provide a wide range of products and services necessary for agricultural production, including farm equipment, financial services, grain agronomy, marketing, storage and transportation. Each China Northeast Logistics City will provide trade centers covering agricultural products such as corn, rice, beans, seeds, pesticides, fertilizers, agricultural machinery and other related tools as well as industrial products such as leather, textile and clothing hardware and accessories, building materials, specialized vehicles and their spare parts. We will also facilitate and make available to our trade center tenants and their customers a full range of integrated agricultural logistics and trade facilities and services, including transportation services, warehouses, agricultural logistics liaison services, on-site agricultural logistics service providers and quality testing services. The agricultural logistics services will be provided by on-site joint venture and third party service providers in our facilities. In addition, we will provide value-added exhibition and conference, residential, hotel and office facilities and procure other parties to provide banking and advertising services as well as food and beverage services. Our business model will be further augmented by the on-site presence of PRC Government agencies, which offer a diverse range of services, including registration and compliance, customs, tax administration, public security and human resources services primarily to trade center tenants, farmers and other customers.

Our development activities consist of site selection, land acquisition, project design and construction of trade centers, warehouse facilities and supporting commercial and residential facilities. Our operations consist of the operation of these trade centers and facilities on our project sites.

### *China Northeast Logistics City—Tieling*

China Northeast Logistics City—Tieling as a whole, including all trade centers and supporting commercial, warehouse and residential facilities, is expected to cover a total planned GFA of approximately 4.1 million square meters upon completion of all phases. China Northeast Logistics City—Tieling commenced construction in January 2008, was partially completed in February 2009 and began operating in August 2009. We sell and lease trade center units at China Northeast Logistics City—Tieling to agricultural traders, farmers, domestic and international suppliers, distributors of raw materials and agricultural products, and we provide superior facilities and an integrated platform from which to display and sell their agricultural or related products to buyers. We focus on developing our trade centers by providing superior project planning and managing completed trade centers with quality services. We intend to maintain an optimal mix between trade center units for sale and trade center units held as investment properties for lease.

As of March 31, 2016, a total GFA of approximately 501,000 square meters (excluding self-used properties) were completed and more than 3,500 independent individuals had entered into sales and purchase agreements to purchase more than approximately 324,000 square meters of GFA, or approximately 65%, of our completed GFA. As of March 31, 2016, we completed sales of GFA of approximately 324,000 square meters (including approximately 40,000 square meters of residential properties). For such sales, we had outstanding accounts receivable of approximately HK\$4,105,000, or less than 1% of such sales. As of March 31, 2016, an additional approximately 175,000 square meters of GFA are currently under construction. In addition, we have GFA of approximately 281,000 square meters and approximately 94,000 square meters, available for sale and pre-sale, and for lease, respectively.

### *China Northeast Logistics City—Dezhou*

China Northeast Logistics City—Dezhou is expected to have a total site area of 7 million square meters, which is expected to provide GFA of approximately 15 million square meters upon completion of all phases. We entered into a framework agreement to develop China Northeast Logistics City—Dezhou with the Dezhou Municipal Government in July 2010 and a groundbreaking ceremony was held on October 8, 2010. China Northeast Logistics City—Dezhou is located in Dezhou City of Shandong Province, approximately 60 minutes drive from Jinan, the capital city of Shandong Province. We have acquired land use rights with site area of approximately 794,590 square meters for China Northeast Logistics City—Dezhou. The construction for China Northeast Logistics City—Dezhou commenced in June 2011.

As of March 31, 2016, a total GFA of approximately 236,000 square meters (excluding self-used properties) were completed and more than 2,300 independent individuals had entered into sales and purchase agreements to purchase approximately 198,000 square meters of GFA, or approximately 84%, of our completed GFA. As of March 31, 2016, we completed sales of GFA of approximately 198,000 square meters. For such sales, we had outstanding accounts receivable of approximately HK\$5,833,000, or 1% of such sales. As of March 31, 2016, an additional approximately 241,000 square meters of GFA are currently under construction.

As of March 31, 2016, our total investments incurred for China Northeast Logistics City—Tieling and China Northeast Logistics City—Dezhou are approximately RMB2,238 million (US\$344 million) and RMB2,311 million (US\$356 million), respectively.

### ***Rural-urban migration and city re-development business***

Our rural-urban migration and city re-development business is comprised of (1) servicing and assignments of development rights and (2) development and sales of residential, commercial and other auxiliary properties in new city center districts. It is China Metro's strategy to assign the development rights to independent third party developers on portion of land plots that have been allocated by the local governments under the framework agreements for their development in return for a premium while retaining the remaining portion for China Metro's own development.

China Metro previously carried out rural-urban migration and city re-development business through China Focus City—Qiqihar. Upon disposal of China Focus City—Qiqihar during the fiscal year ended March 31, 2013, China Metro continues this business through existing locations, such as China Glorious City—Hengyang, China Glorious City—Zhoukou, China Glorious City—Handan and China Glorious City—Nanyang.

### *China Glorious City—Hengyang*

China Glorious City—Hengyang is expected to carry out rural-urban migration and city re-development business as well as logistics platform business. It is expected to have a total site area of 2.7 million square meters, which is expected to provide GFA of approximately 7.5 million square meters including commercial, residential, warehousing and other auxiliary facilities upon full completion. As of March 31, 2016, we acquired approximately 447,495 square meters of land through auction for our own development as well as for assignment to third parties. As of March 31, 2016, approximately 606,000 square meters of GFA is under construction.



#### *China Glorious City—Zhoukou*

China Glorious City—Zhoukou is expected to carry out rural-urban migration and city re-development business as well as logistics platform business. It is expected to have a total site area of approximately 5.5 million square meters, which is expected to provide GFA of approximately 13.2 million square meters. As of March 31, 2016, no new land was acquired through auctions.

As of March 31, 2016, a total GFA of approximately 250,000 square meters (excluding self-used properties) were completed and more than 2,200 independent individuals had entered into sales and purchase agreements to purchase more than approximately 217,000 square meters of GFA, or approximately 87%, of our completed GFA. As of March 31, 2016, we completed sales of GFA of approximately 217,000 square meters. For such sales, we had outstanding accounts receivable of approximately HK\$12,050,000, or less than 1% of such sales. As of March 31, 2016, an additional approximately 458,000 square meters of GFA are under construction.

#### *China Glorious City—Handan*

China Glorious City—Handan is expected to carry out rural-urban migration and city re-development business as well as logistics platform business. It is expected to have a total site area of approximately 1.3 million square meters, which is expected to provide GFA of approximately 3.1 million square meters. As of March 31, 2016, we acquired approximately 395,128 square meters of land through auctions. As of March 31, 2016, approximately 447,000 square meters of GFA is under construction.

#### *China Glorious City—Nanyang*

China Glorious City—Nanyang is expected to carry out rural-urban migration and city re-development business as well as logistics platform business. It is expected to have a total site area of approximately 1.3 million square meters, which is expected to provide GFA of approximately 3.1 million square meters. As of March 31, 2016, we acquired approximately 346,203 square meters of land through auctions. As of March 31, 2016, approximately 379,000 square meters of GFA is under construction.

As of March 31, 2016, our total investments incurred for China Glorious City—Hengyang, China Glorious City—Zhoukou, China Glorious City—Handan and China Glorious City—Nanyang are approximately RMB2,277 million (US\$350 million), RMB1,208 million (US\$185 million), RMB677 million (US\$104 million), and RMB346 million (US\$53 million), respectively.

All of our agricultural logistics business revenues are currently derived from our operations at China Northeast Logistics City—Tieling and China Northeast Logistics City—Dezhou and were from sales, leases and management of trade center units. All of our rural-urban migration and city re-development business revenues are currently derived from our operations at China Glorious City—Hengyang and China Glorious City—Zhoukou and were from sales of trade centers as well as from assignments of development rights. China Northeast Logistics City—Tieling began to generate revenue since fiscal year ended March 31, 2009. During the fiscal year ended March 31, 2012, China Northeast Logistics City—Dezhou began to contribute to our agricultural logistics business. Net revenues in fiscal year ended March 31, 2014 were approximately HK\$387.0 million, with HK\$205.0 million, HK\$4.8 million and HK\$5.4 million were contributed from sales of trade center units, rental income from leases of trade center units and property management fee income, respectively, whereas our rural-urban migration and city re-development business contributed revenue of approximately HK\$171.8 million through servicing and assignments of development rights at Hengyang City. During the fiscal year ended March 31, 2015, China Glorious City—Zhoukou began to contribute to our rural-urban migration and city re-development business. Net revenues in fiscal year ended March 31, 2015 were approximately HK\$1,400.7 million, with HK\$1,393.9 million, HK\$2.8 million, HK\$2.9 million and HK\$1.1 million were contributed from sales of trade center units, rental income from leases of trade center units, property management fee income and hotel income, respectively. Net revenues in fiscal year ended March 31, 2016 were approximately HK\$210.0 million, HK\$4.2 million, HK\$4.2 million and HK\$2.5 million were contributed from sales of trade center units, rental income from leases of trade center units, property management fee income and hotel income, respectively. Although we do not generate significant revenue from the agricultural logistics and other supporting services available at our trade centers, these services facilitate the operations of our trade center tenants and form an integral part of our trade center operations. In addition, the breadth of our supporting facilities and services distinguishes us from other trade centers in the PRC, and we believe they are important factors in attracting trade center tenants, farmers and customers.

Changes in fair values of our investment properties (which include investment properties under construction) were approximately HK\$18.3 million, HK\$4.2 million and HK\$9.1 million in the fiscal years ended March 31, 2014, 2015 and 2016, respectively. In the fiscal years ended March 31, 2014, 2015, and 2016, changes in fair values of investment properties represented positive of 12.7%, and 5.9% and negative of 13.5% respectively, of our net profit after taking into account relevant deferred income tax.

### ***Completed Property Development***

#### *China Northeast Logistics City—Tieling*

China Northeast Logistics City—Tieling will cover a total planned GFA of approximately 4.1 million square meters. Construction of approximately 501,000 square meters of trade centers and residential properties was completed as of March 31, 2016.

#### *China Northeast Logistics City—Dezhou*

China Northeast Logistics City—Dezhou will cover a total planned GFA of approximately 15.0 million square meters. Construction of approximately 236,000 square meters of trade centers was completed as of March 31, 2016.

#### *China Glorious City—Zhoukou*

China Glorious City—Zhoukou will cover a total planned GFA of approximately 13.2 million square meters. Construction of approximately 250,000 square meters of trade centers was completed as of March 31, 2016.

### ***Properties under Development***

#### *China Northeast Logistics City—Tieling*

We are currently constructing additional trade centers and supporting facilities for China Northeast Logistics City—Tieling with a planned GFA of approximately 175,000 square meters.

#### *China Northeast Logistics City—Dezhou*

We are currently constructing additional trade centers and supporting facilities for China Northeast Logistics City—Dezhou with a planned GFA of approximately 241,000 square meters.

#### *China Glorious City—Hengyang*

We are currently constructing trade centers and supporting facilities for China Glorious City—Hengyang with a planned GFA of approximately 606,000 square meters.

#### *China Glorious City—Zhoukou*

We are currently constructing trade centers and supporting facilities for China Glorious City—Zhoukou with a planned GFA of approximately 458,000 square meters.

#### *China Glorious City—Handan*

We are currently constructing trade centers and supporting facilities for China Glorious City—Handan with a planned GFA of approximately 447,000 square meters.

#### *China Glorious City—Nanyang*

We are currently constructing trade centers and supporting facilities for China Glorious City—Nanyang with a planned GFA of approximately 379,000 square meters.

#### ***Properties Planned for Future Development***

##### *China Northeast Logistics City—Tieling*

We plan to develop and construct additional trade centers, supporting commercial office buildings, hotels, warehouses and residential facilities on the remaining area of China Northeast Logistics City—Tieling, which will be approximately 3.6 million square meters. We expect to complete construction by 2024. We have already obtained land use rights certificates for an area of approximately 2.3 million square meters.

##### *China Northeast Logistics City—Dezhou*

We plan to develop and construct additional trade centers, supporting commercial office buildings, hotels, warehouses and residential facilities on the China Northeast Logistics City—Dezhou, which will have a maximum GFA of up to approximately 14.8 million square meters. We expect to complete all construction of China Northeast Logistics City—Dezhou by 2021.

The total planned site area for China Northeast Logistics City—Dezhou will be approximately 7 million square meters according to a framework agreement that was signed in 2010. We are in the planning stage for construction of further GFA and we have already obtained land use rights certificates for an area of approximately 0.8 million square meters and are in the process of acquiring more land use rights from the local Land Bureau.

##### *China Glorious City—Hengyang*

We plan to develop and construct trade centers, supporting commercial office buildings, hotels, warehouses and residential facilities on the China Glorious City—Hengyang, which will have a maximum GFA of up to approximately 7.5 million square meters.

The total planned site area for China Glorious City—Hengyang will be approximately 2.5 million square meters according to a framework agreement that was signed in 2012. We are currently constructing trade centers with GFA of approximately 504,000 square meters and we have already obtained land use rights certificates for an area of approximately 0.9 million square meters and are in the process of acquiring more land use rights from the local Land Bureau. In addition to properties to be developed on our own, we also assign land to independent third parties for development.

##### *China Glorious City—Zhoukou*

We plan to develop and construct trade centers, supporting commercial office buildings, hotels, warehouses and residential facilities on the China Glorious City—Zhoukou, which will have a maximum GFA of up to approximately 13.2 million square meters.

The total planned site area for China Glorious City—Zhoukou will be approximately 5.5 million square meters according to a framework agreement that was signed in 2012. We are currently constructing trade centers with GFA of approximately 311,000 square meters and we have already obtained land use rights certificates for an area of approximately 0.6 million square meters and are in the process of acquiring more land use rights from the local Land Bureau. In addition to properties to be developed on our own, we also planned to assign land to independent third parties for development.

##### *China Glorious City—Handan*

We plan to develop and construct trade centers, supporting commercial office buildings, hotels, warehouses and residential facilities on the China Glorious City—Handan, which will have a maximum GFA of up to approximately 3.1 million square meters.

The total planned site area for China Glorious City—Handan will be approximately 1.3 million square meters according to a framework agreement that was signed in 2015. We are currently constructing trade centers with GFA of approximately 447,000 square meters and we have already obtained land use rights certificates for an area of approximately 395,000 square meters and are in the process of acquiring more land use rights from the local Land Bureau. In addition to properties to be developed on our own, we also planned to assign land to independent third parties for development.

### *China Glorious City—Nanyang*

We plan to develop and construct trade centers, supporting commercial office buildings, hotels, warehouses and residential facilities on the China Glorious City—Nanyang, which will have a maximum GFA of up to approximately 3.1 million square meters.

The total planned site area for China Glorious City—Nanyang will be approximately 1.3 million square meters according to a framework agreement that was signed in 2015. We are currently constructing trade centers with GFA of approximately 379,000 square meters and we have already obtained land use rights certificates for an area of approximately 346,000 square meters and are in the process of acquiring more land use rights from the local Land Bureau. In addition to properties to be developed on our own, we also planned to assign land to independent third parties for development.

### ***Competitive Strengths***

We believe that we are well-positioned to take advantage of the continued strong growth in the trade of agricultural industrial materials as a result of China's growing position as a global manufacturing and export center and China's increasing domestic consumption. We believe that we have the following competitive strengths:

*Our innovative business model provides an integrated platform for our trade center tenants and their customers to receive a comprehensive range of trade, agricultural logistics and supporting services.*

The scale and scope of each China Northeast Logistics City, which serves agricultural and related industries, attracts buyers and sellers seeking to take advantage of the synergies present within our integrated agricultural logistics and trade centers. Buyers are able to meet their purchasing needs for a wide range of agricultural raw materials and products as well as effectively diversify and tailor their sourcing needs. Sellers are able to streamline their business operations by taking advantage of the full range of on-site agricultural logistics and trade solutions available at our trade centers. In addition, hotel and restaurant facilities are available on-site for the convenience of trade center tenants and their customers. As our trade centers serve as a wholly integrated, single shop for both buyers and sellers, we believe this business model will continue to set us apart from our competitors and attract new tenants and customers, while allowing us to retain our current tenants and customers.

*Our integrated agricultural logistics and trade centers are strategically located in fast growing agricultural, manufacturing and economic centers near well-developed transportation networks and infrastructure.*

#### *China Northeast Logistics City—Tieling:*

Manchuria is comprised of Liaoning, Jilin and Heilongjiang provinces.

The great Manchurian plain (average elevation 1,000 ft/300 m), crossed by the Liao and Songhua Rivers, is the only extensively level area in that region. Fertile and densely populated, it has been a major manufacturing and agricultural center of China. As one of the few areas in the country suitable for large-scale mechanized agriculture, it has numerous collective farms. Long, severe winters limit harvests to once a year, but considerable quantities of soybeans are produced. Sweet potatoes, beans and cereals (including rice, wheat, millet and gaoliang) are also grown, and cotton, flax and sugar beets are raised as industrial crops. The processing of soybeans into oil, animal feed, and fertilizer is centered in cities in or near the plain, notably Changchun, Harbin and Shenyang. Livestock are raised in the north and the west, and fishing is important off the Yellow Sea coast.

In addition, China Northeast Logistics City—Tieling is connected to each of the major railway arteries in Northeast China as well as at least two major highways linking each of the major cities in the Manchuria region, Russia, North Korea and South Korea. Located in Bohai sea region, China Northeast Logistics City—Tieling also has access to heavy port facilities in the Yellow Sea coast.

#### *China Northeast Logistics City—Dezhou:*

China Northeast Logistics City—Dezhou is strategically located in the northern of Shandong Province which has a comprehensive transportation network forming a gateway between south and north. It is only a three-hour drive from Beijing and eight-hour drive from Shanghai. The population of Dezhou City and Shandong Province are over 5.7 million and 96 million, respectively. The gross domestic product, or GDP, of Shandong Province was US\$989 billion in 2015, which ranked third among Chinese provinces.

Shandong is historically well known for both agricultural and industrial outputs such as corn, cotton, fertilizers and wheat as well as rolled steel, tractors and farming machinery.

We believe the strategic location and agricultural and industrial production near China Northeast Logistics City—Dezhou offers significant opportunity for us.

*China Glorious City—Hengyang:*

China Glorious City—Hengyang is strategically located in the center of Hunan Province which is considered as the gateway to Guangdong Province and Guangxi Province from the north. It is only a three-hour journey by Express Rail Link or eight-hour drive from Shenzhen. The population of Hengyang City and Hunan Province are over 7.3 million and 70 million, respectively. The gross domestic product, or GDP, of Hunan Province was US\$456 billion in 2015, which ranked tenth among Chinese provinces.

Hengyang is historically well known for its nonferrous metals as well as various agricultural produce.

*China Glorious City—Zhoukou:*

China Glorious City—Zhoukou is strategically located in the center of China. It is only an eight-hour drive to Beijing and nine-hour drive from Shanghai. The population of Zhoukou City and Henan Province are over 11.3 million and 94 million, respectively. The gross domestic product, or GDP, of Henan Province was US\$581 billion in 2015, which ranked fifth among Chinese provinces.

Zhoukou is well known for agricultural products and produce such as foodstuffs, cotton and edible oils as well as processed foods.

*China Glorious City—Handan:*

China Glorious City—Handan is strategically located in the North of China. It is only four-hour drive to Beijing, three-hour drive from Jinan and 1 hour drive from Zhengzhou. The population of Handan City and Hebei Province are over 9.2 million and 73 million, respectively. The gross domestic product, or GDP, of Hebei Province was US\$468 billion in 2015, which ranked seventh among Chinese provinces.

*China Glorious City—Nanyang:*

China Glorious City—Nanyang is strategically located in the center of China. It is only four-hour drive to Wuhan, five-hour drive from Xi'an. The population of Nanyang City is over 10 million.

*We enjoy strong municipal and regional government support in the locations in which we currently plan to operate.*

In selecting new sites for our projects, we strategically seek out locations in which local and regional governments have actively expressed a desire to develop integrated logistics and trade services in their long-term plans. In doing so, we are able to ensure that our business operations are closely aligned with the long-term economic development plans of the region in which we develop and operate. Pursuant to the terms of our mutual agreement, representatives of the municipal governments undertook or will undertake the responsibility for relocating all prior occupants of the land as well as improving roads and infrastructure within each China Northeast Logistics City and China Glorious City. In addition, as part of a broader effort to improve local transportation infrastructure, government authorities have also undertaken construction of new roads and other supporting infrastructure surrounding each China Northeast Logistics City and China Glorious City. Several PRC Government agencies also plan to have an on-site presence at each China Northeast Logistics City and China Glorious City to assist trade center tenants and other visitors. We believe each China Northeast Logistics City and China Glorious City will remain an important part of the municipal and regional governments' overall strategy to develop the local economy by creating new jobs, contributing increased tax revenues and attracting new manufacturing plants and commercial development to the surrounding area.

*The founding shareholders of China Metro-Rural Limited possess in-depth experience and extensive networks of contacts within their respective industries.*

The two founding shareholders of China Metro-Rural Limited, each of whom are either chairmen or executive directors of leading manufacturing and industrial companies based in Hong Kong with operations in the PRC, have extensive experience and a well-developed network of contacts in their respective industries and have provided a firm foundation for our operations and future development. Mr. Cheng Chung Hing, Ricky, one of the founding shareholders of China Metro-Rural Limited, is also the Chairman of Shenzhen Logistics and the Supply Chain Management Association. He is also a member of the Shenzhen Committee of the Chinese People's Political Consultative Conference and a Standing member of the Guangxi Committee of Chinese People's Consultative Conference. Mr. Leung Moon Lam is a member of the National Committee and a member of the Liaoning Committee of the Chinese People's Political Consultative Conference. He is also the Chairman of Federation of Hong Kong Shenzhen Association. He is a member of the Consultative Committee on Economic and Trade Co-operation between Hong Kong and the Mainland.

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

We consider the strength of our senior management team to be fundamental to the success of our integrated agricultural logistics and trade center development projects. We rely on our senior management's experience and insight on important factors that contribute to the success of our projects, such as careful site selection, detailed project management, stringent cost control and effective quality control. Our senior management team also has extensive experience in real estate operations and financial management, which we believe provides us with a key competitive advantage. Our financial team includes professionals with experience in financial management, mergers and acquisitions, capital markets financing and corporate restructuring. Furthermore, we have developed a strong sales team with specialized experience in each of the different trade and agricultural logistics services industries. We believe our management team's comprehensive industry background has helped us to achieve our past success and will enable us to successfully implement our growth strategies in the future.

### ***Strategy***

Our objective is to become the leading developer and operator of large-scale, agricultural and industrial integrated logistics platforms and rural-urban migration and city re-development in the PRC. To achieve this objective, we intend to implement the following strategies:

*Maximize occupancy rates, rental rates, sales prices and traffic flow in our existing and planned trade centers.*

We plan on maximizing occupancy rates, rental rates, sales prices and traffic flow in our existing and planned industrial integrated agricultural logistics and trade centers by implementing the following initiatives:

- *Provide preferential rental terms to maximize occupancy rates and increase rental rates and sales prices as occupancy rates increase.* Our operating strategy of the integrated agricultural logistics and trade centers aims to first achieve high occupancy rates and attract a high-quality tenant base, and then increase rental rates and sales prices steadily as occupancy rates increase. We intend to attract quality tenants to our trade centers by offering preferential rental rates and other more attractive leasing terms than those offered by our competitors, such as rent free periods based on advance rental payments made by tenants. We intend to increase rental rates after the initial lease period, by which time we believe our tenants who have established their business in our trade centers and are benefiting from the full range of integrated agricultural logistics, trade and supporting facilities will have strong incentives to renew their leases. We anticipate favorable upward trends in rental rates and sales prices for our trade center units, driven by (1) continuing growth in the manufacturing and export industries in China, which we expect to generate additional demand for space in integrated agricultural logistics and trade centers, and (2) higher quality features to be developed in the trade centers, which we expect will be offered at higher rental rates and sales prices. In the fiscal year ended March 31, 2016, our overall average selling price was HK\$6,947 per square meter, represented an increase of approximately 5.6% as compared with the average selling price of HK\$6,582 per square meter in the fiscal year ended March 31, 2015.
- *Continue to offer integrated agricultural logistics services to increase customers' access to the global supply chain.* We intend to optimize our offerings of integrated agricultural logistics services, including warehouse, liaison and on-site agricultural logistics services and transportation services, in order to facilitate individual needs and order requirements of trade center tenants and their customers. By integrating agricultural logistics and trade functions and providing ready access to necessary services for trade center tenants and their customers, we believe we will be able to outperform our competitors in advancing and expediting the business interests of trade center tenants.

- *Leverage and improve supporting infrastructure and services.* We will seek to enhance the market demand for our trade center units by leveraging and improving the auxiliary services available to our trade center tenants and their customers. In developing supporting infrastructure and services at China Northeast Logistics City—Tieling, we have entered into strategic alliances and arrangements with a variety of third party service providers, including one of China’s leading banks, Agricultural Credit Union, and a telecommunications company. We have also entered into a strategic alliance with Liaoning Chemical Fertilizers Co. Ltd. to build the largest fertilizer trade market in Liaoning. In addition, we will offer conference and exhibition facilities to the agricultural and related industries participants.
- *Building a strong brand by expanding into other cities and regions.* We intend to expand the brand name “China Northeast Logistics City” as well as “China Glorious City” into other cities and regions in the PRC by establishing a network of China Northeast Logistics Cities and China Glorious Cities. By creating a network, we hope to create synergy between China Northeast Logistics Cities and China Glorious Cities in different regions where customers from each China Northeast Logistics City and China Glorious City will be attracted to one another, thus creating more transactions.

*Build our market position and enhance our brand recognition.*

We intend to augment our sales and marketing program to further strengthen our market position and enhance brand recognition by using a variety of promotional, advertising, public relations and customer service campaigns in China. We will emphasize the competitive strengths of our trade centers, including strategic location, integration into the global agricultural logistics supply chain, strong supporting infrastructure and services and high quality and superior management in our marketing efforts. Our marketing promotions and advertising campaigns will target domestic and multinational companies active in the industries represented at our trade centers. We believe that these marketing activities will better enable us to promote our trade centers, attract quality trade center tenants and enhance our brand recognition among domestic and international buyers and suppliers of industrial materials and finished goods, creating higher demand for our trade center units.

*Achieve and maintain an optimal mix between properties for sale and investment properties for lease.*

We do not have any limitations or constraints in sales or leasing. We intend to maintain an optimal mix of properties generating long-term recurring income and capital appreciation, and properties generating profit from sales. We intend to strategically balance the amount of GFA for sale and for investment in our completed projects and properties under development and planned for future development in order to enhance our working capital position and to finance a portion of our project development costs.

*Achieve and maintain an optimal mix between land for self development, and servicing and assignments of development rights.*

We intend to retain certain land plots to be acquired for our own development and sales of commercial and residential properties while assigning the remaining land plots to independent third party developers in return for a premium. By doing so, we hope to be able to maintain at an optimal mix in terms of cash flows from assignments of rights and sales of properties and timing of such cash flows, creating flexibility in China Metro’s overall development and funding requirements.

**Trade Center Projects**

We currently have four large-scale integrated agricultural logistics and trade center projects in various stages of development.

Our trade center projects are classified into:

- Properties under development, representing properties for which we have obtained land use rights certificates and have planned or commenced construction.
- Investment properties, representing properties held for long-term investment and for leasing purposes.
- Investment properties under construction, representing properties held for long-term investment and for leasing purposes upon completion.
- Properties held for sale, representing properties for which we have completed construction and are ready to be sold and occupied by potential buyers and tenants.
- Properties under planning, representing development activities consisting of site selection, land acquisition and project design.

In determining the estimated commencement and completion dates for our properties under development and planned for future development, we rely on certain assumptions, including that: (1) there will be no material changes with respect to the general economic conditions in the PRC, performance of the PRC property market or demand for agricultural materials, particularly in the regions where we plan to develop such properties; (2) there will be no material change in the regulatory regime governing the real estate market in the PRC which adversely affects our ability to develop such properties; (3) there will be no significant obstacles in obtaining necessary licenses and approvals to develop such properties; (4) we will be able to obtain adequate funding through internal financing, bank borrowings and shareholder loans, as well as expanding our sources of external financing, including access to debt and equity financing, to develop such properties; (5) we will be able to obtain sites identified for future development pursuant to the terms of the master agreements governing the construction and development of such projects; (6) we will be able to obtain land use rights and building ownership certificates necessary to commence development of such projects; (7) the services rendered by independent contractors engaged in the construction of such properties will be performed in a satisfactory manner that meets our quality requirements; (8) there will be no material increase in the costs of construction materials and labor in the PRC; and (9) we will not be involved in any material legal or other governmental proceedings arising from the transfer or development of such properties.

### ***Land-Use Rights and Building Ownership Rights***

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

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

#### ***China Northeast Logistics City—Tieling***

We have received land use rights with respect to approximately 2,344,134 square meters of a total site area of approximately 4.1 million square meters planned for development for China Northeast Logistics City—Tieling. Other than as discussed below, we have obtained all necessary land use rights and building ownership certificates to conduct our operations at China Northeast Logistics City—Tieling. The land use rights are for a period ranging from 40 to 70 years commencing from the respective dates as specified in the land use rights certificates.

We have paid for and signed a land grant contract with the local government for approximately 2,344,134 square meters of land planned for use, which together representing approximately 60%, of the total site area for China Northeast Logistics City—Tieling. As of March 31, 2016, we received all land use rights for our development. All the land has gone through auctions.

#### ***China Northeast Logistics City—Dezhou***

We have received land use rights with respect to approximately 794,590 square meters of a total site area of approximately 7 million square meters planned for development for China Northeast Logistics City—Dezhou. We have obtained necessary land use rights certificates to conduct our current operations at China Northeast Logistics City—Dezhou. The land use rights obtained are for a period of 40 years commencing from the respective dates as specified in the land use rights certificates. All the land has gone through auctions.

#### ***China Glorious City—Hengyang***

We have received land use rights with respect to approximately 1,340,416 square meters of a total site area of approximately 2.7 million square meters planned for development for China Glorious City—Hengyang. We have obtained necessary land use rights certificates to conduct our operations at China Glorious City—Hengyang. The land use rights obtained are for a period ranging from 40 years for commercial land to 70 years for warehousing land, commencing from the respective dates as specified in the land use rights certificates. All the land has gone through auctions.



### *China Glorious City—Zhoukou*

We have received land use rights with respect to approximately 617,045 square meters of a total site area of approximately 5.5 million square meters planned for development for China Glorious City—Zhoukou. We have obtained necessary land use rights certificates to conduct our operations at China Glorious City—Zhoukou. The land use rights obtained are for commercial land and are for a period of 40 years, commencing from the respective dates as specified in the land use rights certificates. All the land has gone through auctions.

### *China Glorious City—Handan*

We have received land use rights with respect to approximately 395,128 square meters of a total site area of approximately 1.3 million square meters planned for development for China Glorious City—Handan. We have obtained necessary land use rights certificates to conduct our operations at China Glorious City—Handan. The land use rights obtained are for a period of 40 years for commercial land, commencing from the respective dates as specified in the land use rights certificates. All the land has gone through auctions.

### *China Glorious City—Nanyang*

We have received land use rights with respect to approximately 346,203 square meters of a total site area of approximately 1.3 million square meters planned for development for China Glorious City—Nanyang. We have obtained necessary land use rights certificates to conduct our operations at China Glorious City—Nanyang. The land use rights obtained are for a period of 40 years for commercial land, commencing from the respective dates as specified in the land use rights certificates. All the land has gone through auctions.

Under relevant PRC laws and regulations, idle land is subject to (a) payment of idle fees equivalent to 20% of the land grant fees paid for these parcels of land, or (b) in more serious cases, potential forfeiture.

Currently, none of our land has been designated as idle land by relevant PRC authorities, and we do not believe our land is subject to payment of any idle fees or forfeiture.

## ***Sales and Marketing***

As of March 31, 2016, we had a team of approximately 11, 22, 36, 40, 44 and 37 sales and marketing and customer services personnel located in Tieling City, Dezhou City, Hengyang City, Zhoukou City, Handan City and Nanyang City, respectively, who are responsible for the sales, leasing and marketing of the store units in the trade centers, residential and other properties. Once a project is completed, our sales and marketing staff will also develop advertising and rental plans for the properties held for rental, and sales plans for the store units to be sold to purchasers of the properties. We will also engage other independent professionals in the PRC to prepare marketing studies to assist us in developing our advertising and sales and rental plans. This process also includes a determination of target customers, as well as strategies to maximize usage and revenues from the property.

We conduct marketing of our projects through a variety of channels, including the network of our founding shareholders, advertising media, events and exhibitions and activities of trade associations. China Northeast Logistics City—Dezhou has its own website [www.nlc86.com](http://www.nlc86.com) which provides a platform for promoting itself and the business carried out therein.

## ***Lease Agreements***

### *China Northeast Logistics City—Tieling*

#### *Overview*

As of March 31, 2016, we had approximately 2,700 completed trade center units for lease at China Northeast Logistics City—Tieling. Leasing of trade center units and commercial facilities is conducted by our sales and marketing department. Prospective tenants complete an application containing information as to desired location of the rental units and facilities, and pay a nominal deposit. We review the application and, if appropriate, provide a detailed proposal of the rental unit, as well as deposits, rental rates, management fees and any rent abatement or rent-free periods. Once an agreement is reached with a tenant, a lease agreement is executed.

### *Preferential Payment Terms*

In an effort to attract tenants as part of the initial leasing-out period of trade center units, we provided early tenants with preferential rental rates and rent-free periods of up to 24 months for a three-year lease, based primarily on the length of the lease agreements.

We currently offer preferential rental rates to all of our trade center tenants. The discounts offered to tenants depend on a variety of factors, including the duration of the lease, the type and location of the trade center for the unit to be leased, and the credit of the tenant. We also offer additional discounts to those tenants who make rental payments in advance. Tenants who make rental payments in advance typically receive a discount based on the length of the prepayment term. In addition, we offer incentive discounts to existing tenants who choose to enter into new lease agreements following the expiration of their initial lease terms and pay a portion of their rent in advance. As of March 31, 2016, taking into account the above preferential terms, the average effective annual rental rate for our trade center units is approximately RMB 68 per square meter (excluding management fees).

### *Self-Used Properties*

In order for us to operate our agricultural logistics business and rural-urban migration and city re-development business more efficiently and effectively, we have constructed and occupied the following properties as at March 31, 2016:

#### *China Northeast Logistics City—Tieling*

- Administrative Tower, a 5-story building with a total gross floor area of approximately 10,757 square meters. The Tower is used as our headquarters of China Northeast Logistics City—Tieling and is used by us for daily administrative duties.
- Sales Center, a 2-story building with office area with a total gross floor area of approximately 2,265 square meters. The Sales Center is used as showroom at China Northeast Logistics City—Tieling and is used by our sales team for daily sales and administrative duties.

#### *China Northeast Logistics City—Dezhou*

- Administrative office, located on the 4th floor of a 4-story No. 1 Exchange Plaza at China Northeast Logistics City—Dezhou with a total gross floor area of approximately 1,300 square meters. The administrative office is used as our headquarters of China Northeast Logistics City—Dezhou.
- Sales office, located on the 1st floor of a 4-story No. 1 Exchange Plaza at China Northeast Logistics City—Dezhou with a total gross floor area of approximately 1,105 square meters. The sales office is used by our sales team as showroom for China Northeast Logistics City—Dezhou and for daily sales and administrative duties.
- Property management office, located at China Northeast Logistics City—Dezhou with a total gross floor area of approximately 718 square meters and is used by our property management team for daily property management duties.

#### *China Glorious City—Hengyang*

- Administrative office, a 1-story building located at China Glorious City—Hengyang with a total gross floor area of approximately 3,286 square meters. The administrative office is used as our headquarters of China Glorious City—Hengyang.
- Sales office, a 1-story building located at China Glorious City—Hengyang with a total gross floor area of approximately 1,268 square meters. The sales office is used by our sales team as showroom for China Glorious City—Hengyang and for daily sales and administrative duties.

#### *China Glorious City—Zhoukou*

- Administrative office, a 1-story building located at China Glorious City—Zhoukou with a total gross floor area of approximately 2,551 square meters. The administrative office is used as our headquarters of China Glorious City—Zhoukou.
- Sales office, a 1-story building located at China Glorious City—Zhoukou with total gross floor area of approximately 1,100 square meters and is used by our sales team as showroom for China Northeast Logistics City—Zhoukou and for daily sales and administrative duties.

#### *China Glorious City—Handan*

- Administrative office, a 1-story building located at China Glorious City—Handan with a total gross floor area of approximately 2,062 square meters. The administrative office is used as our headquarters of China Glorious City—Handan.
- Sales office, a 1-story building located at China Glorious City—Handan with total gross floor area of approximately 807 square meters and is used by our sales team as showroom for China Glorious City—Handan and for daily sales and administrative duties.

#### ***Recent Developments***

##### *China Northeast Logistics City—Tieling*

During the past few years we have in aggregate acquired parcels of land with a total site area of approximately 500,548 square meters for China Northeast Logistics City—Tieling.

For the portion of China Northeast Logistics City—Tieling that has been pre-sold/sold, average selling price increased by HK\$508 approximately from HK\$3,674 per square meter in the fiscal year ended March 31, 2015 to HK\$4,182 per square meter in the fiscal year ended March 31, 2015. As of March 31, 2016, we have pre-sold/sold total GFA of approximately 324,000 square meters.

Sales of GFA decreased by 66% from approximately 15,100 square meters in the fiscal year ended March 31, 2015 to 5,200 square meters in the fiscal year ended March 31, 2016.

##### *China Northeast Logistics City—Dezhou*

We have acquired land use rights for land plots from the local Land Bureau with site area of approximately 794,590 and commenced construction in June 2011. GFA of approximately 236,000 square meters was completed as of March 31, 2016 and GFA of approximately 241,000 square meters is still under construction.

For the GFA we have pre-sold/sold, average selling price increased by approximately 4% from HK\$6,797 per square meter in the fiscal year ended March 31, 2015 to HK\$7,042 per square meter in the fiscal year ended March 31, 2016. As of March 31, 2016, we have pre-sold/sold total GFA of approximately 205,000 square meters.

Sales of GFA increased by 61% from approximately 1,800 square meters in the fiscal year ended March 31, 2015 to 2,900 square meters in the fiscal year ended March 31, 2016.

##### *China Glorious City—Hengyang*

We have acquired land use rights for land plots from the local Land Bureau with site area of approximately 942,918 square meters and commenced construction in May 2013. As of March 31, 2016, GFA of approximately 606,000 square meters is under construction.

##### *China Glorious City—Zhoukou*

We have acquired land use rights for land plots from the local Land Bureau with site area of approximately 617,045 square meters and commenced construction in April 2014. GFA of approximately 250,000 square meters was completed as of March 31, 2016 and GFA of approximately 458,000 square meters is still under construction.

For the GFA we have pre-sold/sold, average selling price increased by approximately 11% from HK\$6,806 per square meter in the fiscal year ended March 31, 2015 to HK\$7,585 per square meter in the fiscal year ended March 31, 2016. As of March 31, 2016, we have pre-sold/sold total GFA of approximately 341,000 square meters.

Sales of GFA decreased by 89% from approximately 195,000 square meters in the fiscal year ended March 31, 2015 to 22,100 square meters in the fiscal year ended March 31, 2016.

### *China Glorious City—Handan*

We have acquired land use rights for land plots from the local Land Bureau with site area of approximately 395,128 square meters and commenced construction of trade centers with GFA of approximately 447,000 square meters in December 2015.

### *China Glorious City—Nanyang*

We have acquired land use rights for land plots from the local Land Bureau with site area of approximately 346,203 square meters and commenced construction of trade centers with GFA of approximately 379,000 square meters in February 2016.

## **Our Corporate Information**

Our principal executive office is located at Suite 2204, 22/F, Sun Life Tower, The Gateway, 15 Canton Road, Tsimshatsui, Kowloon, Hong Kong, telephone: 852-2111-3815. We have designated National Registered Agents, Inc., located at 111 Eighth Avenue, New York, NY 10011, as our agent for service of process in the United States.

## **Intellectual Property Rights**

### *Agricultural logistics*

We have registered the trademark of (i) “東北物流城” (China Northeast Logistics City) and its logo and (ii) the logo of “China Metro-Rural Exchange” under some additional categories with the Trade Marks Registry in Hong Kong, and we have submitted applications for registration of the trademarks “東北城”, “NLC”, “華耀城” and “HYC” with the Trademark Office of the State Administration For Industry and Commerce of the PRC under various categories relating to metals, textiles, machines, electronics and many other categories. We are also the owner of the domain names of “huayaocity.com”, “nlc86.com” and “www.chinametrorural.com”.

Provided they are still in use, we will apply to renew our trademarks prior to or upon their expiration. Currently, we do not anticipate any difficulties in renewing our trademarks. Accordingly, we do not expect any adverse effects from the upcoming expiration of any of our trademarks.

We believe that our business is not dependent, to a significant extent, on patents or licenses, industrial, commercial or financial contracts or new manufacturing process, and such factors are not material to our business or profitability.

## **Facilities**

Our principal executive office, which is comprised of approximately 1,512 square feet pursuant to a lease that expires on March 16, 2017, and is staffed by management and office personnel.

Our China administrative office for Shenzhen head office is located at 18-21/F, Block 12, Tiedong Logistics Zone, Chevalier Avenue, Pinghu Street, Longgang District, Shenzhen, PRC, which is comprised of approximately 6,671 square meters and is staffed by management and office personnel.

Our China administrative and sales offices for China Northeast Logistics City—Tieling are located at Administrative Tower and Sales Center at China Northeast City—Tieling, Zuanshi Road, Xincheng District, Tieling, Liaoning Province, PRC. Our administrative and sales offices for China Northeast Logistics City—Tieling, which are comprised of approximately 13,022 square meters in supporting commercial facilities located within China Northeast Logistics City—Tieling, and are staffed by management, office and sales personnel. We have land use rights and building ownership certificates for the buildings in which our Tieling administrative office and sales offices are located.

Our China administrative and sales offices for China Northeast Logistics City—Dezhou are located at 4/F and 1/F of No.1 Exchange Plaza, China Northeast Logistics City—Dezhou, 3777 Dexian Dajie, Decheng District, Dezhou, Shandong Province, PRC, which are comprised of approximately 1,300 and 1,105 square meters of gross floor area, respectively, and are staffed by management, office and sales personnel. We have land use rights for the building in which our Dezhou City administrative office and sales offices are located.

Our China administrative and sales offices for China Glorious City—Hengyang are located at China Glorious City—Hengyang, Cailun Dadao, Shigu District, Hengyang, Hunan Province, PRC, which is comprised of approximately 3,286 and 1,268 square meters of gross floor area, respectively, and are staffed by management, office and sales personnel. We have land use rights for the building in which our Hengyang City administrative office and sales offices are located.

Our China administrative and sales offices for China Glorious City—Zhoukou are located at China Glorious City—Zhoukou, 500 meters East of Intersection of Taishan Road and Zhouhuai Road, Chuanhui District, Zhoukou, Henan Province, PRC, which are comprised of approximately 2,551 and 1,100 square meters of gross floor area, respectively, and are staffed by management, office and sales personnel. We have land use rights for the building in which our Zhoukou City administrative office and sales offices are located.

Our China administrative and sales offices for China Glorious City—Handan are located at China Glorious City—Handan, South-West Corner of Intersection Fudong Street and Handa Road, Handan County, Handan, Hebei Province, PRC, which are comprised of approximately 2,062 and 807 square meters of gross floor area, respectively, and are staffed by management, office and sales personnel. We have land use rights for the building in which our Handan City administrative office and sales offices are located.

Our China administrative and sales offices for China Glorious City—Nanyang are located at 1st Floor, Administrative Building of Tianrun Full Regal Hotel, No. 6 Yingbin Road, Nanyang, Henan Province, PRC, which are comprised of approximately 1,586 and 1,321 square meters of gross floor area, respectively, and are staffed by management, office and sales personnel.

### **Legal Proceedings**

Our subsidiary China Tieling Northeast is involved in a PRC court case brought about by a contractor, Kaiyuan Wei Min Construction Engineering Co., Ltd. (“Wei Min”), regarding a disputed construction contract where Wai Min is claiming damages of approximately RMB9,882,355. The litigation is still ongoing and there has been no material progress as at date of this report. Although a judgement is yet to be issued by local PRC court, we are of the opinion that the full provision for the claim shall be made and accordingly, the amount was fully provided and has been charged to the consolidated income statement for the fiscal year ended March 31, 2015.

Our subsidiary China Tieling Northeast is involved in a PRC court case brought about by a contractor, Tieling Xin Hai Construction Engineering Co., Ltd. (“Xin Hai”), regarding a disputed construction contract where Xin Hai is claiming damages of approximately RMB1,174,156. The amount was fully provided and has been charged to the consolidated income statement for the fiscal year ended March 31, 2015. During the current fiscal year, a judgement was issued by the PRC court in favour of Xin Hai and the provision made in the prior year is sufficient to cover the damages awarded to Xin Hai by the PRC court therefore no additional provision is required. The Group has yet to settle the claim with Xin Hai and the balance remained outstanding as at March 31, 2016.

We have filed a Hong Kong court case (Action No. 755 of 2015) against Run Xing Investments Limited (“Run Xing”), Honour Noble Holdings Limited (“Honour Noble”) and Mr. Su Shaobin. In the case we are making claims for various returns and interest receivables with aggregate sum of RMB42,935,132 from Run Xing and Honour Noble while Mr. Su Shaobin is a guarantor for the aforesaid sum. A judgement from the Hong Kong Court of First Instance was issued in our favour and demanded Mr. Su Shaobin to pay the aforesaid sum. During the current fiscal year, Mr. Su has lodged a petition to the Hong Kong court and we are currently in the progress of preparing for the hearing. We are of the opinion that the recoverability of the aforesaid sum is in doubt and full provision for the aforesaid sum and a loan receivable of RMB50,000,000 should be made and accordingly, the amounts were fully provided and has been charged to the consolidated income statement during the fiscal year ended March 31, 2015.

As of March 31, 2016, except for the foregoing, we did not have any litigation, arbitration or claim of material importance, and the Directors were not aware of any pending or threatened litigation, arbitration or claim of material importance against us or any of our subsidiaries.

### **Insurance**

We had purchased construction all-risk insurance during the construction of certain trade centers (which are now completed and the insurance has expired). With respect to our ongoing construction projects, we require our contractors to insure the construction through all-risk insurance. There are, however, certain types of risks that are not covered by our (or our contractors’) insurance policies, including losses resulting from war, nuclear contamination, tsunami, pollution, earthquake and acts of terrorism. As of March 31, 2016, we have not experienced any significant loss or damage to our properties.

In addition, we maintain employer’s liability insurance covering bodily injury, medical treatment and litigation expenses for our employees. We also insure our automobiles through automobile insurance covering collision damage and various types of liability.

## REGULATION

*The following section sets forth a summary of the most significant PRC laws and regulations that affect our businesses. For a description of the legal risks relating to government regulation of our business, and in particular the land system in China, please see “Risk Factors.”*

*In this section, “we”, “us” and “our” refer to the Company and its subsidiaries as the context requires.*

### Overview

We, through our PRC subsidiaries, China Tieling Northeast, China Dezhou Northeast, China Henyang Glorious, China Zhoukou Glorious Investments, China Zhoukou Glorious Strategic, China Handan Glorious and China Nanyang Glorious, are developers in the PRC of integrated agricultural logistics and trade centers and residential and commercial properties, and rural-urban migration and city re-development, and are subject to extensive government regulations in the PRC. In connection with our integrated agricultural logistics and trade center development and residential and commercial property development activities, and rural-urban migration and city re-development, we are subject to a number of PRC laws and regulations relating to the land system in the PRC, such as those related to land use rights (including how land use rights may be acquired and transferred), documents of title, property development, real estate loans, mortgages and other financing techniques, property management, leasing and property-specific taxes. Our customers and agricultural logistics providers located on-site at Tieling and Dezhou are subject to PRC laws and regulations, and licensing requirements, relating to the import/export industry and the provision of agricultural logistics services.

### *Our Treatment as an Integrated Logistics Enterprise and Industrial and Agricultural Exchange*

We, through our PRC subsidiaries, China Tieling Northeast and China Dezhou Northeast, provide or will provide platforms for a variety of industrial and agricultural exchange, integrated agricultural logistics and trade services and facilities, including transportation services, warehouses, and other services. Because China Tieling Northeast and China Dezhou Northeast develop properties necessary for their integrated logistics and trade center operations, China Tieling Northeast and China Dezhou Northeast are subject to certain PRC laws, regulations and policies applicable to property development enterprises.

According to *Regulations for Guiding the Direction of Foreign Investment* (指導外商投資方向規定) issued by the State Council on February 11, 2002, foreign investment projects must be examined, approved and submitted for record by development planning authorities or foreign trade and economic cooperation authorities, depending on the nature of the projects. Our PRC subsidiary, China Tieling Northeast, was examined and approved by the Tieling Municipal Bureau of Foreign Trade and Economic Cooperation and established on May 15, 2007, and it filed as a foreign investment real estate enterprise with the PRC Ministry of Commerce on September 1, 2009. Our PRC subsidiary, China Dezhou Northeast, was examined and approved by the Dezhou Bureau of Commerce and established on September 27, 2010, and it filed as a foreign investment real estate enterprise with the PRC Ministry of Commerce on August 11, 2011.

### The Land System of the PRC

#### Overview

The *Law of the People’s Republic of China on the Administration of Land* (中華人民共和國土地管理法), issued by the National People’s Congress on June 25, 1986 and amended on August 29, 1998 and further amended on August 28, 2004, distinguishes between the ownership of land and the right to use land. All land in the PRC is either state-owned or collectively owned, depending on the location of the land. All land in the urban areas of a city or town is state-owned, and all land in the rural areas and all farmland is, unless otherwise specified by law, collectively owned. The State has the right to resume its ownership of land or the right to use land in accordance with law if required for the public interest.

Although all land in the PRC is owned by the State or by collectives, individuals and entities may obtain land use rights and hold such land use rights for development purposes. Individuals and entities may acquire land use rights in different ways, the two most important being land grants from local land authorities and land transfers from land users who have already obtained land use rights.

## Land Grants

### National and Local Legislation

In April 1988, the National People's Congress passed an amendment to the constitution of the PRC. The amendment, which allowed for the transfer of state-owned land use rights for value, paved the way for reforms of the legal regime governing the use of state-owned land and transfer of state-owned land use rights. The *Decision of the Standing Committee of the National People's Congress on Amending the Law of the People's Republic of China on the Administration of Land* (全國人民代表大會常務委員會關於修改中華人民共和國土地管理法的決定), adopted by the National People's Congress on December 29, 1988, amends the *Land Administration Law of the People's Republic of China* (中華人民共和國土地管理法) to permit the transfer of state-owned land use rights for value.

On May 19, 1990, the State Council issued the *Regulations of People's Republic of China Concerning the Interim Grant and Assignment of Right to Use State Land in Urban Areas* (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例), or the Urban Land Regulations. These regulations formalized the process of the grant and transfer of land use rights for consideration. Under this system, the State retains the ultimate ownership of the land. However, the right to use the land, referred to as land use rights, can be granted by the local governments at the county city level for a maximum period of 70 years for specific purposes, including for residential and commercial development, pursuant to a land grant contract and upon payment to the State of a land grant fee for the grant of land use rights.

The Urban Land Regulations prescribe different maximum periods of grant for different uses of land as follows:

Use of Land	Maximum Period (years)
Commercial, tourism, entertainment	40
Residential	70
Industrial	50
Educational, scientific, technological, cultural, public health and sports	50
Comprehensive utilization or other purposes	50

Under the Urban Land Regulations, domestic and foreign enterprises are permitted to acquire land use rights unless the law provides otherwise. The State may not resume possession of lawfully granted land use rights prior to expiration of the term of grant. If the public interest requires the resumption of possession by the State under special circumstances during the term of grant, compensation must be paid by the State. Subject to compliance with the terms of the land grant contract, a holder of land use rights may exercise substantially the same rights as a land owner during the grant term, including holding, leasing, transferring, mortgaging and developing the land for sale or lease.

Upon paying in full the land grant fee pursuant to the terms of the contract, the grantee may apply to the relevant land bureau for issuance of the land use rights certificate. Upon expiration of the term of grant, renewal is possible subject to the execution of a new contract for the grant of land use rights and payment of a new land grant fee. If the term of the grant is not renewed, the land use rights and ownership of any buildings on the land will revert to the State without compensation.

*The Law of the People's Republic of China on Property Rights* (中華人民共和國物權法), or the Property Law, adopted by the National People's Congress on March 16, 2007 and effective as of October 1, 2007, further clarified land use rights in the PRC with the following rules:

- land use rights for residences will be automatically renewed upon expiry;
- car parking spaces and garages within residential buildings must be used to meet the needs of the owners who live in the building first;
- the construction of buildings must comply with relevant laws and regulations and must not affect the ventilation of or lighting to neighboring buildings; and
- where the state-owned land use rights for construction use are transferred, exchanged, used as a capital contribution, donated to others or mortgaged, an application for modification registration must be filed with the registration department.

In addition to the general framework for transactions relating to land use rights set out in the Urban Land Regulations, local legislation provides for additional requirements, including those applicable to specific transactions within specific areas relating to the grant and transfer of state-owned land use rights. These local regulations are numerous and some of them are inconsistent with national legislation. Under PRC law, national laws and regulations prevail to the extent of such inconsistencies.

#### *Methods of Land Grant*

There are two methods by which state-owned land use rights may be granted, namely by private agreement or competitive processes (i.e., public tender, auction or listing for sale at a land exchange administered by the local government).

The Ministry of Land and Resources has required, since August 31, 2004, that the grant of state-owned land use rights must be made pursuant to public tenders, auctions or listings for sale on a land exchange and that no state-owned land use rights for commercial uses could be granted by way of agreement. PRC laws and regulations specifically provide that land to be used for commercial purposes must be granted by way of competitive processes. A number of measures are provided by PRC laws and regulations to ensure such grant of state-owned land use rights for commercial purposes is conducted openly and fairly. For instance, the local land bureau must take into account various social, economic and planning considerations when deciding on the use of a certain piece of land, and its decision regarding land use designation is subject to approval by the city or provincial government. In addition, the announcement of a public tender, auction or listing for sale at a land exchange must be made 20 days prior to the date of beginning such competitive processes. Further, it is also stipulated that for listing at a land exchange, the time period for accepting bids must not be less than 10 days.

When state-owned land use rights are granted by way of tender, a bid evaluation committee consisting of not less than five members (including a representative of the grantor and other experts) formed by the land bureau is responsible for evaluating the bids and the tenderer is responsible for deciding on the successful bidder. The successful bidder will then sign the land grant contract with the land bureau and pay the balance of the land-grant fee before obtaining the state-owned land use rights certificate and before the land bureau will effectuate the registration of the successful bidder as the holder of state-owned land use rights for the land. The land bureau will consider the following factors: if the invitation to tender only requires a bid from the bidder, whoever offers the highest bid will be the successful bidder; or if the invitation to tender requires the bidder to submit planning proposals in addition to the bid, then details of the proposals will be considered. If the relevant land bureau considers that none of the bids is satisfactory, the land bureau has the right to reject all the bids. Tenders for state-owned land use rights can be by way of open tenders or private tenders.

Where state-owned land use rights are granted by way of auction, a public auction will be held by the relevant local land bureau, and the land use rights are granted to the highest bidder. The successful bidder will then be asked to sign the land grant contract with the local land bureau and pay the relevant land grant fee within a prescribed period.

Where state-owned land use rights are granted by way of listing at a land exchange administered by the local government, a public notice will be issued by the local land bureau to specify the location, area and purpose of use of land, the initial bidding price, the period for receiving bids and the terms and conditions upon which the land use rights are proposed to be granted. The state-owned land use rights are granted to the bidder with the highest bid who satisfies the terms and conditions. The successful bidder will enter into a land grant contract with the local land bureau and pay the relevant land grant fee within a prescribed period.

The state-owned land use rights obtained by China Metro's PRC subsidiaries have been granted by way of listing at their respective Land Reserve Centers.

Upon signing the land grant contract, the grantee is required to pay the land grant fee pursuant to the terms of the contract and the contract is then submitted to the relevant local bureau for the issue of the state-owned land use rights certificate. Upon expiration of the term of grant, the grantee may apply for its renewal. Upon approval by the relevant local land bureau, a new contract is entered into to renew the grant, and a land grant fee is paid.



### *Model Land Grant Contract*

To standardize land grant contracts, in 2008, the Ministry of Land and Resources and the State Administration for Industry and Commerce published the model land grant contract, on the basis of which many local governments have formulated their respective local form land grant contract to suit their special local circumstances. The model land grant contract contains terms such as location of land, use of land, land grant fee and its payment schedule, conditions of land upon delivery, term of grant, land use conditions and restrictions (including GFA, plot ratio and height and density limitations), construction of public facilities, submission of building plans for approval, deadline for commencement of construction, payment of idle fees, deadline for completion of construction, application for extension of the stipulated construction period, restrictions on subsequent transfers, responsibility for obtaining supply of utilities, restrictions against alienation before payment of the land-grant fee and completion of prescribed development, application of renewal, force majeure, breach of contract and dispute resolution.

Our PRC subsidiaries, as grantees, and the respective State-owned Land and Resource Bureaus, as the PRC land authorities responsible for the grant of the state-owned land use rights, have entered into various land grant contracts. The majority of the terms of our PRC subsidiaries' land grant contracts are consistent with the model land grant contract. However, certain terms have been added or amended to suit our PRC subsidiaries' circumstances.

If the land user fails to develop and invest in the land within the period of time specified in the land grant contract, the land bureau has the right to impose various penalties ranging from fines to withdrawal of the grant without consideration (unless the failure is due to force majeure or the activities of a government authority).

### *Termination*

A land use right terminates upon the expiry of the term of grant specified in the land grant contract and the resumption by the State of that right.

The State generally will not withdraw a state-owned land use right before the expiration of its term of grant and if it does so for special reasons, such as for the public interest, it must offer proper compensation to the land user, having regard to the surrounding circumstances and the period for which the state-owned land use right has been enjoyed by the user.

Upon expiry, the state-owned land use rights and ownership of the related buildings erected on the land and other attachments may be acquired by the State without compensation. The land user will take steps to surrender the state-owned land use rights certificate and cancel the registration of the certificate in accordance with relevant regulations.

A land user may apply for renewal of the state-owned land use rights and, if the application is granted, the land user is required to enter into a new land grant contract, pay a land grant fee and effect appropriate registration for the renewed grant.

### *Documents of Title and Registration of Property Interests*

A state-owned land use rights certificate is the evidentiary legal document to demonstrate that the registered land user has the lawful right to use the land during the term stated therein. Upon the completion of construction of a building (including passing the acceptance tests by various government departments), a building ownership certificate will be issued to the owner of the building. The holder of a state-owned land use right who is issued a building ownership certificate holds the state-owned land use rights and owns the building erected on the land. All holders of state-owned land use rights, and other rights in respect of the land, such as the right to buildings erected on the land, must register all their lawful state-owned land use rights, as well as ownership rights to the buildings. The state-owned land use rights certificate and the building ownership certificate are separate certificates.

### *Mortgage and Guarantee*

Under PRC laws and regulations, when a mortgage is created on the ownership of a building on state-owned land legally obtained, a mortgage shall be simultaneously created on the state-owned land use rights of the land on which the building is erected. Pursuant to PRC laws and regulations, buildings newly erected on a piece of urban land after a mortgage contract has been entered into shall not constitute mortgaged property. If the mortgaged property is auctioned off, the new buildings added on the land may be auctioned together with the mortgaged property, but the mortgagee shall not be entitled to priority compensation from the proceeds of the auction of the new buildings.

Within 30 days after a real estate mortgage contract has been signed, the parties to the mortgage should register the mortgage with the real estate administration authority in the city where the real estate is situated. A real estate mortgage becomes effective on the date of registration of the mortgage. When carrying out mortgaged property registration, the loan contract and the mortgage contract as well as the state-owned land use rights certificate or the building ownership certificate in respect of the mortgaged property must be submitted to the mortgagee.

Under PRC laws and regulations, guarantees may be in two forms: (1) general guarantees whereby the guarantor bears the liability when the debtor fails to perform the payment obligation; and (2) guarantees with joint and several liability whereby the guarantor and debtor are jointly and severally liable for the payment obligation. A guarantee contract must be in writing and, unless agreed otherwise, the term of a guarantee shall be six months after the expiration of the term for performance of the principal obligation.

Where indebtedness is secured by both a guarantee and by mortgaged property, the guarantor's liability shall be limited to the extent of the indebtedness that is not secured by the mortgaged property.

### ***Property Development***

Property development projects in the PRC are generally divided into single projects and large tract development projects. A single project refers to the construction of buildings on a plot of land and the subsequent sale of units. Large tract development projects consist of the comprehensive development of large area and the construction of necessary infrastructure such as water, electricity, road and communications facilities. The developer may either assign the state-owned land use rights of the developed area or construct buildings on the land itself and sell or lease the buildings erected on it.

Foreign entities must establish foreign investment enterprises in the PRC as project companies to develop property. The typical scope of business of such project companies includes development, construction, sales, leasing and property management of commodity properties and ancillary facilities on the specific land as approved by the government. The term of the property development company is usually the same as the term of grant of the state-owned land use rights in question.

Establishment of a project company is subject to the approval by the relevant departments of the PRC Government in accordance with the following procedures. First, a project application report is submitted to the central or local development and reform commission for verification and approval. If the development and reform commission considers the proposed property development project to be consistent with the prevailing national and local economic plans and foreign investment regulations, it will grant an approval to the applicant in respect of the project.

Once the project application report has been verified and approved, a joint feasibility study report is prepared that reflects the investor's assessment of the overall economic viability of the proposed project company. The feasibility study report and/or articles of association may then be submitted to the Ministry of Commerce or its local counterpart, as the case may be, for approval. If the Ministry of Commerce or its local counterpart finds the application documents to be in compliance with PRC law and industrial policy, it will issue an approval certificate for the establishment of the project company. With this approval certificate, the investor can apply to the local administration for industry and commerce for a foreign investment enterprise business license for the project company.

### ***Regulations on Foreign Investment Real Estate Enterprises***

Once a foreign entity developer has established a project company and secured the state-owned land use rights to a piece of land for development, it has to apply for and obtain the requisite planning permits from the planning departments and have its design plan approved by, and apply for and obtain construction permits from, the relevant construction commission for commencement of construction work on the land. When the construction work on the land is completed, the completed buildings and structures must be examined and approved by the government departments before they can be delivered to purchasers or lessors for occupancy.

Under the *Administrative Measures for the Verification and Approval and the Record-filing of Foreign Investment Projects* (外商投資項目核准和備案管理辦法) issued by the National Development and Reform Commission on May 17, 2014, certain restricted projects with a total investment (including increased investment) of less than US\$50 million in the Catalogue of Industries for Guiding Foreign Investment shall be subject to the verification and approval of provincial governments.

Based on the advice of our PRC Counsel, Commerce & Finance Law Offices, we acknowledge that China Tieling Northeast, China Dezhou Northeast, China Hengyang Glorious, China Zhoukou Glorious Investments and China Zhoukou Glorious Strategic are treated as foreign investment real estate enterprises engaged in integrated logistics projects and are subject to the requirements imposed on such enterprises.

PRC law requires that a foreign investment project be approved by government authorities at the appropriate level depending on the amount of the investment by the foreign enterprise and the industries to which the project belongs under the foreign investment catalog. China Tieling Northeast has obtained approval from the Tieling Municipal Bureau of Foreign Trade and Economic Cooperation as a foreign investment enterprise and have subsequently received approval on two occasions to increase the investment capital to US\$35.00 million. China Dezhou Northeast has obtained approval from the Dezhou Municipal Bureau of Foreign Trade and Economic Cooperation as a foreign investment enterprise with investment capital of US\$49.90 million. China Hengyang Glorious has obtained approval from the Hengyang Municipal Bureau of Foreign Trade and Economic Cooperation as a foreign investment enterprise with investment capital of US\$30.00 million. China Zhoukou Glorious Investments and China Zhoukou Glorious Strategic have obtained approvals from the Zhoukou Municipal Bureau of Foreign Trade and Economic Cooperation as foreign investment enterprises with investment capitals of US\$20.00 million and US\$10.00 million respectively.

For the purpose of easing the burden of foreign investment company, *The Notice of the Ministry of Commerce and the State Administration of Foreign Exchange on Record Modification of Foreign Investment in Real Estate* (商務部、外匯局關於進一步改進外商投資房地產備案工作的通知) was issued on November 6, 2015. According to the Notice, requirement for record to be published on the website of Ministry of Commerce has been canceled and the procedures of obtaining Foreign Registration Certificate is reduced. Establishment and alteration of foreign investment enterprises are governed by local commerce bureau.

#### *Circular No. 171*

Issued in response to increasing foreign investment in the real estate industry in recent years, the *Opinions on Regulating the Entry of Foreign Capital Into the Real Estate Market and the Administration Thereof* (關於規範房地產市場外資進入和管理的意見), or Circular No. 171, issued by the Ministry of Construction, the Ministry of Commerce, the National Development and Reform Commission, the People's Bank of China, the State Administration for Industry and Commerce and the State Administration of Foreign Exchange, on July 11, 2006, may impact foreign investment in the PRC real estate industry in the following areas:

- Circular No. 171 requires a foreign invested real estate enterprise, or FIREE, with total investments equating to or exceeding US\$10 million to have a registered capital consisting of no less than 50% of its total amount of investment. FIREEs with total investments below US\$10 million must have a registered capital in amounts pursuant to and consistent with existing regulations.
- Upon payment of the state-owned land use rights grant fees, the FIREE can apply to the land administration authority for a state-owned land use rights certificate. Upon obtaining the state-owned land use rights certificate, an FIREE may then obtain a recertification of its existing foreign investment enterprise approval certificate, or FIEAC, and the business license, with the same validity period as that of such FIEAC; following which, the FIREE may apply to the tax administration for tax registration purposes.
- When a foreign investor merges with a domestic real estate enterprise, or acquires an FIREE's equity or project, the investor is required to submit a guarantee which ensures the compliance with the provisions of the state-owned land use rights grant contract, construction site planning permit and construction work planning permit, and the state-owned land use rights certificate, and the modification certification issued by the construction authorities, and the tax payments certification issued by the relevant tax authorities.
- Foreign investors which merge with domestic real estate development enterprises by share transfer or other methods, or which acquire the equity of a PRC party in joint venture enterprises, must allocate their employees appropriately, deal with bank debts and settle the lump sum payment of the transfer price through self-owned funds. However, a foreign investor with an unfavorable record should not be allowed to conduct any of these activities.
- FIREEs which have not paid up their registered capital fully, or failed to obtain a state-owned land use rights certificate, or with under 35% of the total capital required for the project, may not be allowed to obtain a loan in or outside China, and foreign exchange administration departments shall not approve any settlement of foreign loans by such enterprises. Although the Ministry of Commerce has not issued any further opinions on the regulation of entry of foreign capital into the real estate market, however, based on the Capital Ratios Notice, issued by the State Council on May 25, 2009, this capital requirement may be reduced to 30% in the future.
- Any Sino or foreign investors in an FIREE shall not guarantee fixed profit returns or provide other arrangements to the same effect for any party in any form.

For encouraging the development of foreign investment enterprises, *the Notice on Management and Admission of Foreign Investment Policy Modification by the Ministry of Construction* (住房城鄉建設部等部門關於調整房地產市場外資進入和管理有關政策的通知), jointly issued by the Ministry of Commerce, the National Development and Reform Commission, the People's Bank of China, the State Administration for Industry and Commerce and the State Administration of Foreign Exchange, on August 19, 2015, has impacted on the real estate industry in the following areas:

- The registered capital limitation has been canceled concerning loans for foreign real estate industry within or out of the territory of the PRC and foreign exchange settlement and loans.
- The branches, representative bodies (except approved real estate enterprises) and individuals working and studying in the PRC can buy commercial houses for own living or using.
- The Notice on Management and Admission of Foreign Investment Policy Modification further simplify their procedures of foreign real estate investment management. Foreign real estate investment enterprises can now obtain Foreign Exchange Registration Certificate in banks in compliance with foreign exchange management regulations.

Except for the above, the other parts of Circular No. 171 are still effective.

#### *Circular No. 50*

*The Notice of the Ministry of Commerce and the State Administration of Foreign Exchange on Further Strengthening and Regulating the Examination, Approval and Oversight of Foreign Direct Investment in the Real Estate Sector* (商務部、國家外匯管理局關於進一步加強，規範外商直接投資房地產業審批和監管的通知), or Circular No. 50, issued by the Ministry of Commerce and the State Administration of Foreign Exchange on May 23, 2007 may impact foreign investment in the PRC real estate industry in the following areas:

- the local governments/authorities that approve FIREE establishments are now required to file such approvals with the Ministry of Commerce;
- prior to establishing a foreign invested real estate enterprise, foreign investors are required to obtain state-owned land use rights or the ownership of a real estate building, or the investor should have entered into an indicative land grant contract or indicative project purchase agreement with the land administrative department, developer of the land or owner of the property;
- the practice of allowing foreign investors taking over local project companies by way of roundtrip investment is strictly controlled; and
- a foreign investment enterprise that intends to engage in real estate development, or an existing FIREE which intends to undertake a new real estate development project, shall first apply to the relevant authorities for such business scope and scale expansion in accordance with laws and regulations on foreign investments.

#### ***Qualifications of a Property Developer***

Under the *Regulations for the Administration of the Qualifications of Real Estate Development Enterprises* (房地產開發企業資質管理規定), or Qualification Certificate Regulations, issued by the Ministry of Construction on March 29, 2000, a real estate developer shall apply for registration of its qualifications according to the Qualification Certificate Regulations. Qualification Certificate Regulations are modified by the Ministry of Construction on May 4, 2015. According to the modification, limitations for real estate enterprises on registered capital and capital verification are abolished.

According to the Qualification Certificate Regulations, a newly established property developer must first apply for an interim qualification certificate within 30 days of obtaining its business license. The interim qualification certificate has a one-year validity and may be extended for not more than two years with the approval of the relevant real estate development administration authority. In addition, an application for a formal qualification certificate must be made one month before the expiration of the interim certificate. All qualification certificates are subject to renewal on an annual basis. Under government regulations, developers must fulfill all statutory requirements before they may obtain or renew their qualification certificates.

On December 22, 2010, China Tieling Northeast obtained from the Liaoning Housing and Urban Rural Construction Bureau a Qualification Certificate for Real Estate Development Enterprise in Grade III with an effective term until December 21, 2013 allowing China Tieling Northeast to undertake property development in the PRC. On April 17, 2014, this qualification certificate was renewed for a term until March 3, 2017. After the expiration of its current qualification certificate, China Tieling Northeast will need to renew this qualification certificate or apply for a qualification certificate in a higher grade.

The Dezhou Housing and Urban Rural Construction Bureau has granted interim qualification certificates to China Dezhou Northeast and Dezhou Northeast City Property Co., Ltd. confirming that China Dezhou Northeast and Dezhou Northeast City Property Co., Ltd. are allowed to undertake the development of properties in the PRC. The interim qualification certificate of China Dezhou Northeast expired on September 30, 2014, but the qualification certificate was then renewed until December 31, 2016. Upon expiration of the interim qualification certificate, China Dezhou Northeast will be required to renew its qualification certificate.

The Hunan Housing and Urban Rural Construction Bureau has granted an interim qualification certificate to China Hengyang Glorious confirming that China Hengyang Glorious is allowed to undertake the development of properties in the PRC. The interim qualification certificate of China Hengyang Glorious expired on January 23, 2016, but the qualification certificate was then renewed until January 23, 2017. Upon expiration of the interim qualification certificate, China Hengyang Glorious will be required to renew its qualification certificate.

The Zhoukou Housing and Urban Rural Construction Bureau has granted interim qualification certificates to China Zhoukou Glorious Investments, China Zhoukou Strategic and Zhoukou Huayu Industries Co., Ltd. confirming that China Zhoukou Glorious Investments, China Zhoukou Strategic and Zhoukou Huayu Industries Co., Ltd. are allowed to undertake the development of properties in the PRC. The interim qualification certificates of China Zhoukou Glorious Investments and China Zhoukou Glorious Strategic will expire on July 8, 2017. The interim qualification certificate of Zhoukou Huayu Industries Co., Ltd. expired on July 8, 2016 and the entity is in the process of renewing it. Upon expiration of the interim qualification certificates, China Zhoukou Glorious Investments and China Zhoukou Glorious Strategic will be required to renew their qualification certificates.

The Handan Construction Bureau has granted an interim qualification certificate to China Glorious City (Handan) Industries Co., Ltd., or China Handan Glorious, confirming that China Handan Glorious is allowed to undertake the development of properties in the PRC. The interim qualification certificate of China Handan Glorious will expire on March 24, 2017. Upon expiration of the interim qualification certificate, China Handan Glorious will be required to renew its qualification certificate.

The Nanyang Housing and Urban Rural Construction Bureau has granted an interim qualification certificate to China Glorious City (Nanyang) Industries Co., Ltd., or China Nanyang Glorious, confirming that China Nanyang Glorious is allowed to undertake the development of properties in the PRC. The interim qualification certificate of China Nanyang Glorious will expire on April 14, 2018. Upon expiration of the interim qualification certificate, China Nanyang Glorious will be required to renew its qualification certificate.

Each of China Tieling Northeast, China Dezhou Northeast, China Hengyang Glorious, China Zhoukou Glorious Investments, China Zhoukou Glorious Strategic, Zhoukou Huayu Industries Co., Ltd., China Handan Glorious and China Nanyang Glorious has the requisite qualification certificates for engaging in their property development activities. China Tieling Northeast, China Dezhou Northeast, China Hengyang Glorious, China Zhoukou Glorious Investments, China Zhoukou Glorious Strategic, Zhoukou Huayu Industries Co., Ltd., China Handan Glorious and China Nanyang Glorious will apply to obtain the requisite qualification certificates for their properties planned for future development in Tieling City, Dezhou City, Hengyang City, Zhoukou City, Handan City and Nanyang City as required to conduct their operations.

### ***Property Leasing***

Both the Urban Land Regulations and the Property Law permit leasing of granted state-owned land use rights and the buildings or homes constructed on the land. Leasing of properties situated in urban areas is governed by the *Measures for Administration of the Lease of Commercial Premises* (商品房屋租賃管理辦法), or the Leasing Measures, issued by the Ministry of Construction on December 1, 2010. The Leasing Measures came into effect on February 2011 in accordance with *Law on the Urban Real Estate Administration* (城市房地產管理法) in order to strengthen the administration of the leasing of urban buildings. The Leasing Measures permit property owners to lease their properties to others for residential or commercial property uses except as otherwise prohibited by relevant law. The landlords and tenants who are the parties to a property lease transaction are required to enter into a written lease agreement specifying all of the terms of the lease arrangement as required by statute. Leasing of buildings and the underlying state-owned land use rights must not exceed a maximum term of 20 years. The lease agreement becomes effective upon signing; however, it must be registered with the relevant real property administration authority at the municipality or county level within 30 days after its execution for the purpose of protecting the tenant's interest against claims from third parties. A tenant may, upon obtaining consent from the landlord, assign or sublease the premises to sub-tenants. Local governments may impose rent controls.

Under PRC laws and regulations, an enterprise legal person has the right to possess, use, benefit from and dispose of its immovable property and movable property in accordance with laws, administrative regulations and its articles of association. Based on the advice of our PRC Counsel, Commerce & Finance Law Offices, we believe that our commission lease arrangements are in compliance with and protected by the Property Law.

Since July 2009, China Tieling Northeast has been entering into unit lease contracts with third parties. Agreements with third party tenants are contracts granting the tenants the right to use the units for a set period of time. Due to the fact that the Property Law and other relevant PRC laws and regulations do not specifically define this right in relation to housing, these agreements are treated as lease agreements.

Under the *Contract Law of the People's Republic of China* (中華人民共和國合同法), or the PRC Contract Law, issued by the National People's Congress on March 15, 1999, a lease agreement is an agreement by which a lessor agrees to deliver a thing to a lessee for the lessee to use or collect fruits from, and for which the lessee agrees to pay rent to the lessor. Based on the advice of our PRC Counsel, Commerce & Finance Law Offices, our agreements with our tenants (a) comply with relevant PRC laws and regulations, and (b) are legally binding on all parties to such agreements.

We began entering into lease agreements for certain units prior to obtaining building ownership certificates. Based on relevant PRC laws and regulations, obtaining building ownership certificates is not a prerequisite to enter into lease agreements. In addition, pursuant to the *Tieling Measures for Administration of the Lease of Urban Premises* (鐵嶺市城鎮房屋租賃管理辦法), within 30 days after the execution of a lease agreement or delivery of a unit, China Tieling Northeast and the tenant of such unit are required to register the lease agreement with the local authority, Tieling Real Estate Administration Bureau. Although we have not made such registrations, based on the advice of our PRC Counsel, Commerce & Finance Law Offices, this should not affect the effectiveness or validity of our existing lease agreements with tenants.

In addition, as a property developer, we are subject to a number of measures and regulations recently introduced by the PRC Government to tighten control of the real property market. The measures include:

- tightening lending of bank loans to property developers and purchasers of developed properties and increasing the reserve requirements for commercial banks;
- restricting the ability of foreign invested real estate companies to raise funds offshore for the purpose of funding such companies either through capital increase or by way of shareholder loans;
- restricting the conversion and sale of foreign exchange on the capital account for foreign invested real estate companies that have not undergone an examination by the local examination and approval authority;
- imposing strict requirements before commencement of a real estate project can begin, including the requirement that proposed projects with a total investment value of at least RMB50 million establish administration files and receive relevant approval or permits prior to the commencement of construction;
- prohibiting the extension of loans to real estate developers that do not satisfy certain loan conditions, such as those with a percentage of project capital of less than 35% and those that are not in possession of necessary certificates and permits;
- requiring the payment of an idle land charge for land that is idle for one year and recovery of such land by the State without consideration if the land is idle for two years;
- requiring property developers to pay all land grant fees prior to issuing land use rights certificates; and
- requiring all industrial and commercial land to be granted through an invitation of bids or auction.

## ***Property Sales***

### ***Presale of Real Estate***

Under PRC laws and regulations, real estate developers wishing to engage in the presale of real estate in the PRC must first obtain the following permits:

- Certificate of Real Estate Exploitation and Business License of the Developer;
- State-owned Land Use Rights Certificate;
- Construction Work Planning Permit;
- Construction Site Planning Permit;
- Work Commencement Permit; and
- Commodity Premises Pre-sale Permit.

Under the *Measures for the Administration of the Sale of Commodity Premises* (商品房銷售管理辦法), and the *Urban Commodity Premises Pre-Sale Measures* (城市商品房預售管理辦法) issued by the Ministry of Construction on April 4, 2001 and July 20, 2004, respectively, the sale of commodity premises, which include residential properties, commercial properties (such as China Tieling Northeast's and China Dezhou Northeast's trade center units) and other buildings that are developed by property developers can include both pre-completion and post-completion sales.

### ***Pre-completion Sales***

A developer intending to sell a commodity property before the completion of construction must attend to the necessary pre-completion sale registration with the real estate administration authority of the relevant city or county to obtain a Permit for Pre-completion Sale of Commodity Properties.

Commodity properties may only be sold before completion provided that:

- the grant premium has been paid in full for the grant of the state-owned land use rights involved and a state-owned land use rights certificate has been obtained;
- a Construction Work Planning Permit and a Work Commencement Permit have been obtained;
- the funds invested in the development of the commodity properties put up for pre-completion sale represent 25% or more of the total investment in the project and the progress of works and the completion and delivery dates have been ascertained; and
- the pre-completion sale has been registered and a Commodity Premises Pre-sale Permit has been obtained.

### ***Post-completion Sales***

In accordance with the *Measures for the Administration of the Sale of Commodity Premises* (商品房銷售管理辦法), or *Commodity Premises Sale Measures*, issued by the Ministry of Construction on April 4, 2001, commodity properties may be put up for post-completion sale only when the following preconditions for such sale have been satisfied:

- the real estate developer offering to sell the post-completion properties has a valid business license and a qualification classification certificate;
- the real estate developer has obtained a state-owned land use rights certificate or other approval documents of land use;
- the real estate developer has the relevant Construction Work Planning Permit and the Work Commencement Permit;
- the commodity property has been completed, inspected and accepted as qualified;
- the original residents have been resettled;
- the supplementary and essential facilities for supplying water, electricity, heating, gas, communication and other essentials have been made ready for use, and other supplementary facilities and public facilities have been made ready for use, or the schedule of construction and delivery date of have been specified; and
- the property management plan has been completed.

Prior to a post-completion sale of a commodity property, a real estate developer is also required to submit a Real Estate Development Project Manual and other documents showing that the preconditions for a post-completion sale have been fulfilled to the relevant real estate development authorities.

#### *Restrictions on the Sale of Commodity Properties*

We (through our PRC subsidiaries China Tieling Northeast, China Dezhou Northeast, China Hengyang Glorious, China Zhoukou Glorious Investments, China Zhoukou Glorious Strategic, China Handan Glorious and China Nanyang Glorious) are treated by local authorities as a real estate developer focused on integrated logistics in Tieling, Dezhou, Hengyang, Zhoukou, Handan and Nanyang, and, as such, are subject to certain PRC laws, regulations and policies otherwise applicable to property development enterprises, including the Commodity Premises Sale Measures.

Under the Commodity Premises Sale Measures, a real estate developer may not sell a commodity property, by means of either pre-completion or post-completion sales, through the use of cost-returned sales. In addition, a real estate developer may not sell a commodity property by means of pre-completion sales through the use of any form of after-sale lease guarantee. According to the Commodity Premises Sale Measures, a “cost-returned sale” refers to a situation in which a real estate enterprise sells a commercial property by means of periodically returning the price of the property to the purchaser. According to the Commodity Premises Sale Measures, an “after-sales lease guarantee” refers to a situation in which a real estate enterprise sells a commercial property by pledging to act as lessee or as lease agent of the property within a certain period after sale.

Based on the opinion of our PRC Counsel, Commerce & Finance Law Offices, our commission lease arrangements constitute neither cost-returned sales (or any form thereof) nor after-sale lease guarantees (or any form thereof).

Under the terms of a commission lease agreement with the purchaser of a trade center unit, we maintain the right to lease and receive rental income from the trade center unit for periods of up to three years as a means of further developing the trade center market.

Based on the advice of our PRC Counsel, Commerce & Finance Law Offices, we believe that our commission lease agreement should not be considered a “cost-returned sale” (or any form thereof) and is in compliance with the Commodity Premises Sale Measures and other relevant laws and regulations because (1) the commission lease agreement is entered into separately from the purchase agreement for the property; and (2) neither the purchase agreement nor the commission lease agreement contains a provision relating to the periodic return of the price of the property to the purchaser. Based on the above factors, as well as the fact that we do not account for the lease payments under the commission lease agreements as income, Commerce & Finance Law Offices is of the opinion that the commission lease arrangement should not be viewed as a “cost-return sale” (or any form thereof).

Based on the advice of our PRC Counsel, Commerce & Finance Law Offices, we believe that our commission lease agreement should not be considered an “after-sales lease guarantee” (or any form thereof) and is in compliance with the Commodity Premises Sale Measures and other relevant laws and regulations because (1) we do not pay any consideration to the purchaser of a trade center unit in exchange for the right to use and derive profits from the trade center unit, and (2) we did not transfer any rental income to the purchaser of a trade center unit. In this regard, we neither pledge to act as lessee nor as lease agent of the property under the commission lease agreement.

Based on the advice of our PRC Counsel, Commerce & Finance Law Offices, we believe that the commission lease arrangements do not violate the Commodity Premises Sale Measures or other relevant PRC laws and regulations.

In accordance with the *Notice on Enhancing the Supervision of Real Estate Market and Improving the Pre-Completion Sales System of Commodity Property* (關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知) issued by the Ministry of Housing and Urban-Rural Development of the PRC (“MOHURD”) on April 13, 2010, a developer is required to abide by the following regulations:



For any commodity property project without a Pre-sale Permit, a developer shall not engage in any form of pre-completion sales (including subscription, reservation, sequence, VIP card, etc.) or receive any retainer fees /security deposits or participate in any promotion affairs. For any commodity property project with a Pre-sale Permit, a developer must disclose a complete list of all available premises with the price of each premise within 10 days since the issuance date of the Pre-Sale Permit and strictly follow the disclosed price for selling such premises.

A developer shall not sell any self-reserved premises before the primary registration of property title or participate in fraudulent transactions. If a developer will engage any real estate agent for selling commodity properties, such agent shall be chosen only from those registered with the relative authorities.

A developer will be subject to severe penalty if not selling within the time limit or not selling all available premises after the issuance of the Pre-Sale Permit and if intentionally reducing the supply of such premises by overpricing or signing false purchase/sale contracts.

The pre-sale revenue must be put into an escrow account supervised by the relative authorities and be used for the purpose of project construction only.

Commodity properties shall be purchased under the true-name policy. The buyer's name shall not be changed without course after the closing of purchase.

A developer shall be primarily responsible for the quality of its commodity properties. The Plan of Pre-completion Sales submitted by a developer with interim qualification shall set forth the guarantee party for property quality under the circumstances of the developer's bankruptcy or dissolution. Such guarantee party who will issue a guarantee letter accordingly shall be an independent body corporate and be capable of affording relative indemnities.

In accordance with the *Notice on Further Implementing Regulation and Control of Real Property Market* (關於繼續做好房地產市場調控工作的通知) issued by the State Council on February 26, 2013, the issuance the pre-sale certificate may be suspended if the pre-sale price is unreasonably high and the developer refuses to accept the direction of the relevant government authority, or the property project is not subject to the pre-sale revenue supervision.

### ***Regulations on Real Estate Financing***

The PRC Government has introduced a number of measures and regulations to restrict the ability of property developers to raise capital through external financing and other methods since 2003. For example, commercial banks may not grant loans to property developers for the purposes of paying for land grant fees. In addition, a developer applying for real estate development loans shall have at least 35% of capital funds required for the development. Further, commercial banks are not allowed to advance their loan facilities to developers who do not have the required 35% or more of the total capital for the construction projects. Banks shall not accept mortgages of commodity properties remaining unsold for more than three years.

On April 17, 2010, the State Council of PRC issued the *Notice on Controlling the Skyrocketing Price of Properties in Some Cities* (關於堅決遏制部份城市房價過快上漲的通知) which sets forth some new regulations on real estate financing as follows:

For any family (including the borrower and the borrower's spouse and minor children) purchasing its first residential premises of 90 square meters or above, the down payment ratio shall be not less than 30%. For any family purchasing its second residential premises, the downpayment ratio shall be not less than 50% and the interest rate shall be not less than 110% of the standard interest rate. For any family purchasing its third or above residential premises, the downpayment ratio and interest rate will be substantially raised up. On June 4, 2010, MOHURD, the People's Bank of China and China Banking Regulatory Commission ("CBRC") promulgated the *Notice on Regulating the Criterion of the Second Residential Premises for Commercial Home Loans* (關於規範商業性個人住房貸款第二套住房認定標準的通知). The number of premises for commercial home loans shall be judged by the actual number of premises under the names of the borrower's family members (including the borrower, the borrower's spouse and minor children). The minimum downpayment ratio was up to 60% regulated by the *Notice on the Issues Related to Further Enhancing the Regulation and Control of Real Estate Market* (關於進一步做好房地產市場調控工作有關問題的通知) issued by the State Council of PRC on January 26, 2011.

For certain areas with skyrocketing property prices and shortage of supply, the banks may temporarily stop making loans to one or above residential premises. For non-resident without 1 year or above tax or social insurance record, no mortgage loans shall be made by the banks. If necessary, the local governments may temporarily put limits on the number of properties purchased within a certain time period. For the purchase of properties by foreign institutions or foreign individuals, the relative policies (Circular No. 171) shall be followed strictly.

The land for welfare houses, rebuilding of shanty areas and ordinary residential premises shall be no less than 70% of the total supply of residential lands and supplied with top priority. A developer who has violated relative laws and regulations will be restricted on purchasing any new land. The shareholders of a developer shall not provide loans, entrusted loans, guarantee or other financing against applicable regulations to the developer during the bidding and construction process. For any developer participating in land speculation or with idle land, the banks shall not make new development loans and China Securities Regulatory Commission (“CSRC”) shall temporarily reject its application for listing, rights issue and material assets restructuring.

On February 26, 2013, the State Council issued the *Notice on Further Implementing Regulation and Control of Real Property Markets* (關於繼續做好房地產市場調控工作的通知) and required strict implementation of certain on-going restrictive measures with respect to residential properties, including that (i) the restriction area should cover the relevant cities’ entire administrative area; the restrictive measures should apply to all the newly established or second-hand residential properties in such cities; and the qualification review of the purchasers should be conducted before the execution of the purchase agreement or subscription agreement; (ii) the minimum down payment of the total purchase price and the minimum mortgage lending interest rate for a second residential property may be further raised in cities where the housing prices are increasing at an excessively high rate; (iii) the individual income tax rate for selling any self-owned residential properties should strictly be 20%, if the original value of such properties could be verified through taxation or real estate registration records.

On March 30, 2015, the Ministry of Finance and State Administration of Taxation adjusted the tax policies on transfer of residential properties by individuals. Under the new policy, individuals who sell residential properties that have been held for less than two years shall pay business tax in full amount, instead of the five-year holding period that was previously enforced.

### ***Regulations on Development of a Real Estate Project***

Under the Urban Real Estate Law, those who have obtained state-owned land use rights through grant must develop the land in accordance with the terms of use and within the period of commencement prescribed in the contract for the state-owned land use rights grant.

If construction work has not been commenced within one year upon the commencement date as set forth in the state-owned land use rights agreement, a surcharge on idle land equivalent to less than 20% of the land grant fees may be levied. If the construction work has not been commenced within two years, the land can be confiscated without any compensation, unless the delay is caused by force majeure, or the acts of government or acts of other relevant departments under the government, or by indispensable preliminary work.

### ***Planning of a Real Estate Project***

After signing a state-owned land use rights grant contract, a developer shall apply for an Opinion on Construction Project’s Site Selection and a Construction Site Planning Permit with the city planning authority. After obtaining a Construction Site Planning Permit, a developer may commence planning and design work in accordance with the Construction Site Planning Permit requirements and proceed to apply for a Construction Work Planning Permit with the city planning authority.

### ***Relocation***

Upon obtaining approvals for a construction project, a construction site planning permit, a state-owned land use rights certificate, a relocation plan and a verification of deposit to compensate parties that are affected by the relocation payable by the developer by a bank, a developer may apply to the local real estate administration authorities where the real estate is located for a permit for housing demolition and removal.

Upon granting a demolition and removal permit, the real estate administration department must issue a demolition and removal notice to the inhabitants of the area.

### ***Construction of a Real Estate Project***

After obtaining the Construction Work Planning Permit, a developer shall apply for a Work Commencement Permit from the relevant construction authority.

### ***Completion of a Real Estate Project***

A real estate project must comply with the relevant laws and other regulations, requirements on construction quality, safety standards and technical guidance on survey, design and construction work, as well as provisions of the relevant construction contract. After the completion of works for a project, the developer shall apply for an acceptance examination to the construction authority and shall also report details of the acceptance examination to the construction authority. A real estate development project may only be delivered after passing the acceptance examination.

### ***Regulations on Environmental Protection in Construction Projects***

Under the Regulations for *Administration of Environmental Protection in Construction Projects* (建設項目環境保護管理條例), or Environmental Regulations, issued by the State Council on November 29, 1998 and effective as of the same date, each construction project is subject to an environmental impact assessment by the relevant authorities.

According to the Environmental Regulations, a developer is required to submit an environmental impact report, an environmental impact report form, or an environmental impact registration form (as the case may be) to the relevant environmental protection administration for approval during the project's feasibility analysis stage. In the meantime, if any ancillary environmental protection facilities are necessary in the construction project, such facilities are required to be designed, constructed and used in conjunction with the main project. After completion of the project, the developers are required to apply to the relevant environmental protection administrations for final acceptance examination in respect of any ancillary environmental protection facilities. Construction projects are approved for use after passing such acceptance examination.

The *Law of the People's Republic of China on Environmental Impact Assessments* (中華人民共和國環境影響評價法), adopted by the National People's Congress on October 28, 2002 and became effective as of September 1, 2003, provides that if the environmental impact assessment documents of a construction project have not been examined by the relevant environmental protection administrations or are not approved after examination, the authority in charge of examination and approval of the project shall not approve construction of the project, and the construction work unit may not commence work.

A notice issued by the State Environmental Protection Administration on July 6, 2006 provides for stringent examination and approval procedures for various real estate development projects. It also stipulates that no approvals may be issued for new residential projects or extensions in industry development zones, areas impacted by industrial enterprises or areas where such development poses potential harm to residents' health.

### ***Property Management***

A property management enterprise shall apply for assessment of qualifications by the qualification approval authority. An enterprise which passes such a qualification assessment will be issued a qualification certificate evidencing the qualification classification by the authority. No enterprise may engage in property management without undertaking a qualification assessment and obtaining a qualification certificate. One of our subsidiaries, Tieling North Asia Property Management Co., Ltd., has obtained a property management qualification certificate under the classification grade III, which was issued by Tieling House Bureau on August 25, 2008. Another of our subsidiaries, Dezhou North Asia Property Management Co., Ltd., has obtained a property management qualification certificate under classification grade III, which was issued by Dezhou Property Management Center on January 5, 2013.

## ***Insurance***

There are no mandatory requirements under PRC laws and regulations for a property developer to obtain insurance policies for its property developments. Under standard industry practice in the real estate industry, construction companies are generally required to submit insurance proposals in the course of tendering and bidding for construction projects. Construction companies are required to pay for the insurance premium at their own costs and obtain insurance to cover their liabilities, such as a third-party's liability risk, an employer's liability risk, risk of nonperformance of contract in the course of construction and risks associated with the construction and installation works during the construction period. The requirement for construction companies to obtain insurance coverage for all of these risks ceases immediately after the completion and acceptance upon inspection of construction.

## ***Regulation of Foreign Currency Exchange and Dividend Distribution***

### ***Foreign Currency Exchange***

The principal regulation governing foreign currency exchange in the PRC is the *Regulations of the People's Republic of China for the Control of Foreign Exchange* (中華人民共和國外匯管理條例), or the Foreign Exchange Regulations, amended by the State Council on August 1, 2008 and effective on August 5, 2008. Under these regulations, Renminbi are freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not for expenses of capital, such as direct investment, loans or investments in securities outside the PRC unless the prior approval of the State Administration of Foreign Exchange is obtained.

Under the Foreign Exchange Regulations, foreign investment enterprises in the PRC may purchase foreign exchange for trade and service-related foreign exchange transactions without approval by the State Administration of Foreign Exchange by providing commercial documents evidencing these transactions. They may also remit foreign exchange (subject to a cap approved by the State Administration of Foreign Exchange) to satisfy foreign exchange liabilities or to pay dividends.

### ***Dividend Distribution and Remittance***

Under PRC laws and regulations, wholly foreign owned enterprises in China may only pay dividends out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign owned enterprise in China may be required to set aside at least 10.0% of its after-tax profits based on PRC accounting standards in accordance with its articles of incorporation and PRC law each year, if any, to PRC statutory reserve until the accumulated reserve amounts to 50.0% of its registered capital. It is also required to set aside funds for the employee bonus and welfare fund from its after-tax profits each year at percentages determined at its sole discretion. These reserves are not distributable as cash dividends. If the registered capital of a foreign investment enterprise has not been fully paid in accordance with the articles of association, dividends in foreign currency may not be remitted out of the PRC.

### ***Shareholder Loan***

Shareholder loans made to foreign investment enterprises are regarded as foreign debt in China, and are therefore subject to a number of PRC laws and regulations. Under these regulations, our PRC subsidiaries can legally borrow foreign exchange loans up to their borrowing limits, which is the difference between their respective amounts of "total investment" and "registered capital" as approved by the Ministry of Commerce or its local counterparts. "Total investment" is the projected amount of funds necessary for a foreign investment enterprise to attain the production or operational capacity set out in its joint venture contract and/or articles of association, whereas "registered capital" refers to the equity or capital contributions to be paid in full by the foreign investors. According to the Temporary Regulations on Foreign Debt Statistics and Monitor issued by the State Administration of Foreign Exchange effective on August 27, 1987, and the Implementing Rules on Foreign Debt Statistics and Monitor issued by the State Administration of Foreign Exchange effective on January 1, 1998, such loans must be registered and recorded with the State Administration of Foreign Exchange or its local branch. Interest payments on such loans, if any, are subject to a 10% withholding tax unless otherwise exempted pursuant to applicable tax treaties or tax arrangements between the PRC Government and the government of other jurisdictions.

If the foreign exchange debts of a foreign investment enterprise exceed an enterprise's statutory borrowing limits, the foreign investor is required to increase its total investment amount and registered capital as necessary to comply with these limits.

## **Taxation**

### ***Enterprise Income Tax***

The Enterprise Income Tax Law imposes a uniform tax rate of 25% (compared to a previous top rate of 33%) for all enterprises incorporated or resident in China, including foreign investment enterprises, and eliminates many tax exemptions, reductions and preferential treatments formerly applicable to foreign investment enterprises.

Under the Enterprise Income Tax Law that has been effective since January 1, 2008, enterprises established under the laws of foreign countries or regions whose "de facto management bodies" are located within the PRC territory are considered as "resident enterprises" and thus will normally be subject to enterprise income tax at the rate of 25% on global income. In particular, non-resident enterprises with an institution or establishment in China must pay enterprise income tax at the rate of 25% on taxable income derived by such institution or establishment within China as well as on taxable income earned outside China which has a "de facto" connection with such institution or establishment. Non-resident enterprises without any institution or establishment within China, or non-resident enterprises whose income has no connection to its institution or establishment inside China must pay a withholding income tax at the rate of 10% on taxable income derived from inside China, unless otherwise exempted pursuant to applicable tax treaties or tax arrangements between the PRC Government and the government of other jurisdictions. Under the Enterprise Income Tax Law, dividends, bonuses and other equity investment proceeds received by an enterprise are exempted from Enterprise Income Tax if distributed between qualified resident enterprises or if obtained by a nonresident enterprise with institutions or establishments in China from a resident enterprise and having a "de facto" connection with such institutions or establishments. However, even if we are unable to satisfy the requirements for this exemption from withholding tax on the dividends we receive from our subsidiaries in China, we are entitled to a reduced withholding tax of 5% on dividend payments due to a tax treaty between China and Hong Kong, which became effective on December 8, 2006. The tax treaty provides that a company incorporated in Hong Kong may be subject to a withholding tax of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more interest in the PRC company, or at the rate of 10% if it holds less than a 25% interest in the PRC company.

The regulations implementing the Enterprise Income Tax Law, or the Implementation Regulations, define the term "de facto management body" as "the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting and properties of a non-PRC company is located." The determination of tax residency in a particular situation requires a review of the surrounding facts and circumstances and the mechanism provided in the Implementation Regulations gives the relevant taxation authority discretion in applying its judgment.

### ***Business Tax***

Under the Provisional Regulations of the PRC on Business Tax issued by the State Council which took effect on January 1, 2009 and the related implementation rules, a business tax is levied on all units and individuals engaged in taxable services, the transfer of intangible assets or the sale of immovable properties within the territory of the PRC. The tax rates range from 3% to 20% depending on the type of services provided. Most of our PRC subsidiaries which engage in services pay business tax at tax rates of 5%.

*The Notice of the Ministry and State Administration of Taxation under Enforcement of the Pilot Program of Replacing Business Tax with Value-Added Tax* (關於全面推開營業稅改徵增值稅試點的通知) was promulgated on March 23, 2016. From May 1, 2016, replacement of business tax with value-added tax will be enforced nationwide concerning construction industry, real estate industry, financial industry, etc. The implementation of this Notice means all industries in the PRC will be subject to value-added tax instead of business tax from May 1, 2016 and business tax will no longer be levied.

### ***Land Appreciation Tax***

Under PRC laws and regulations, our PRC subsidiaries that engage in integrated logistics and trade center development activities are subject to land appreciation tax for properties sold. Land appreciation tax is levied on China Northeast by local state tax authorities in accordance with the *Interim Regulations on Land Appreciation Tax* (土地增值稅暫行條例), issued by the State Council on December 13, 1993 and as amended on January 8, 2011, which provides that all enterprises and individuals, domestic and foreign, who receive income as a result of a grant of state-owned land use rights are subject to payment of land appreciation tax. Land appreciation tax is levied upon the "appreciation value" of property upon sale or transfer, as defined in the relevant tax laws. All taxable gains from the sale or transfer of land use rights, buildings and related facilities in China are subject to land appreciation tax at progressive rates that range from 30% to 60%. On December 28, 2006, the State Administration of Taxation issued the LAT Notice, which came into effect on February 1, 2007. The LAT Notice sets forth, among other things, methods of calculating land appreciation tax and the time frame for settlement of land appreciation tax.

On May 19, 2010, the State Administration of Taxation issued a supplementary *LAT Notice* (關於土地增值稅清算有關問題的通知) which clarifies the details of income confirmation and deduction items.

### ***Value-Added Tax***

Under PRC regulations which took effect on January 1, 2009, all units and individuals engaged in the sales of goods, provision of processing, repairs and replacement services, and the importation of goods within the territory of the PRC are taxpayers of value-added tax, and shall pay value-added tax at tax rates of between 13% and 17%, depending on the activities in which they engage.

The *Notice of the Ministry of Finance and the State Administration of Taxation on Including Railway Transport and Postal Services under the Pilot Program of Replacing Business Tax with Value-Added Tax* (財政部、國家稅務總局關於將鐵路運輸和郵政業納入營業稅改徵增值稅試點的通知) was promulgated on December 12, 2013, came into effect on January 1, 2014 and was revised on April 29, 2014. The *Notice of the Ministry and State Administration of Taxation under Enforcement of the Pilot Program of Replacing Business Tax with Value-Added Tax* (關於全面推開營業稅改徵增值稅試點的通知) was promulgated on March 23, 2016. From May 1, 2016, replacement of business tax with value-added tax will be enforced nationwide concerning construction industry, real estate industry, financial industry, etc. Four regulations have been published accordingly, namely, *Implementing Measures for the Pilot Program of Replacing Business Tax with Value-Added Tax* (營業稅改徵增值稅試點實施辦法), or the Measures for Pilot Program, *Provisions on Issues concerning the Pilot Program of Replacing Business Tax with Value-Added Tax* (營業稅改徵增值稅試點有關事項的規定), *Provisions on Transitional Policies concerning the Pilot Program of Replacing Business Tax with Value-Added Tax* (營業稅改徵增值稅試點過渡政策的規定), and *Provisions on the Application of Zero-Rated Value-Added Tax and Value-Added Tax Exemption Policies to Taxable Services* (應稅服務適用增值稅零稅率和免稅政策的規定).

Pursuant to the Measures for Pilot Program, entities and individuals engaged in the provision of transportation services, postal services and some of the modern services, or the Tax Payable Services shall be considered as value added taxpayers. The Tax Payable Services include land transport services, waterway transport services, air transport services, pipeline transport services, regular postal services, special postal services, other postal services, research and development services, information technology services, culture and creative services, logistic assistance services, rental services of movable tangible assets, assurance and consultation services, as well as radio and television services. The followings are the tax rates for value added tax: (i) 17% for taxpayers providing rental services of movable tangible assets; (ii) 11% for taxpayers providing transportation, postal services, basic telecommunications, construction, leasing and sales of immovable properties, and transfer of land use rights; (iii) 6% for taxpayers providing modern services (excluding the rental services of movable tangible assets); and (iv) 0% for crossborder transactions carried out by domestic enterprises and individuals, details of which are to be clarified by the Ministry of Finance and State Administration of Taxation. In addition, except for Beijing, Guangzhou, Shanghai and Shenzhen, individuals will be subject to 5% value-added tax for second-hand housing sold within two years from date of purchase, where value-added tax will be exempted for second-hand housing sold from second anniversary onwards. Storage and other services provided by the Company may be subject to the policy of the transition from business tax to value-added tax. Tieling North Asia Development Co., Ltd. and China Tieling Northeast are also required to pay value-added tax under local regulations.

### ***Dividends from Our China Operations***

Under PRC tax laws, regulations and rulings applicable to years prior to 2008, dividends from our operations in China paid to us were exempt from any PRC withholding or income tax. The Enterprise Income Tax Law as currently in effect provides that a withholding tax rate of 10% will normally be applicable to dividends payable to non-PRC investors that are derived from sources within the PRC, but with a possibility of exemption or reduction. The Implementation Regulations reduce the withholding tax rate for non-PRC residents to 10%. As a result, effective from January 1, 2008, dividends paid by foreign investment enterprises to non-PRC resident shareholders are subject to withholding tax at an ordinary rate of 10%, unless otherwise exempted or reduced by PRC laws and regulations or in accordance with arrangements or treaties between the PRC Government and the government of any other jurisdiction where such non-PRC resident shareholder is registered. Currently we are entitled to a reduced withholding tax of 5% on divided payments due to a tax treaty between China and Hong Kong, which became effective on April 1, 2007.

### ***Dividends paid by the Company to our Overseas Investors***

Prior to January 1, 2008, the distribution of dividends by a company to its overseas investors was not subject to PRC tax. However, if we are deemed as a resident enterprise under the Enterprise Income Tax Law, which has been effective since January 1, 2008, the dividends we declare and pay after January 1, 2008 to our investors, including non-PRC investors, will be subject to corporate income tax or income withholding tax unless otherwise exempted.

### ***Transfer or Disposition of Our Shares***

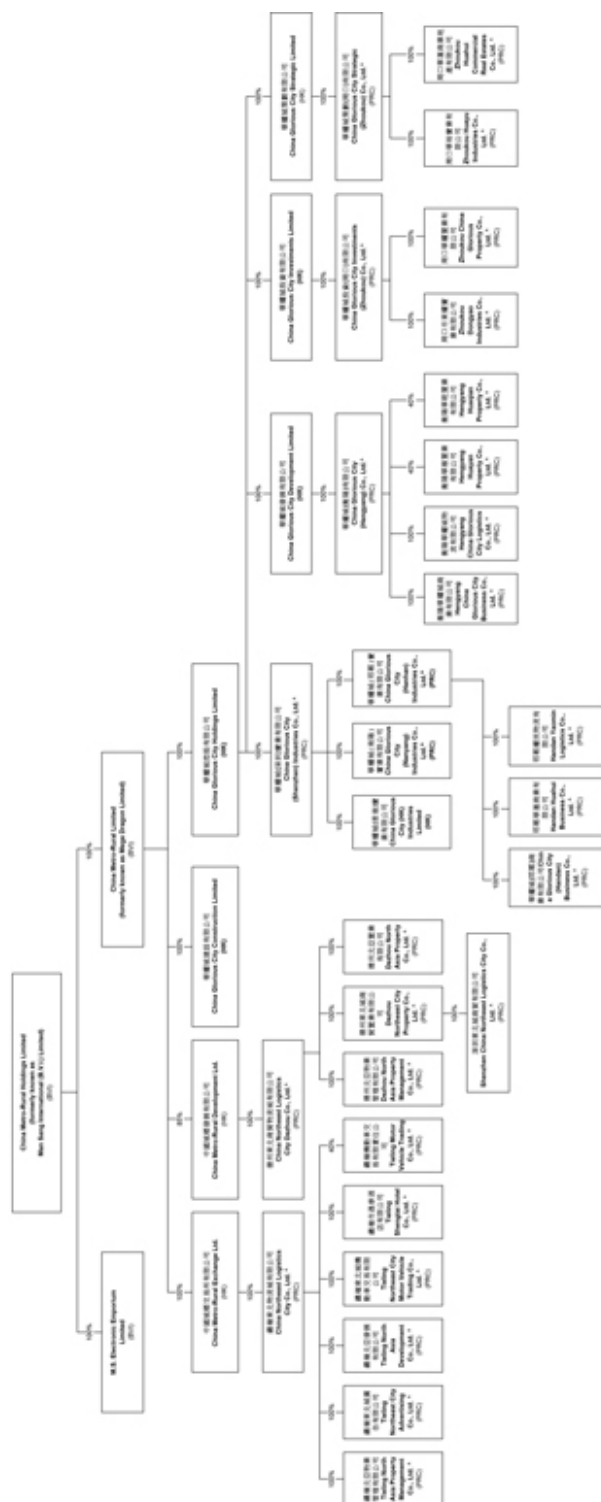
As we are not incorporated in the PRC, under the previous PRC law applicable prior to January 1, 2008, any transfer or disposition of shares of the Company by a non-PRC investor does not trigger PRC tax liabilities. However, if we are deemed a resident enterprise under the Enterprise Income Tax Law which took effect on January 1, 2008, any gain on transfer or disposition of shares of the Company will be subject to corporate income tax, unless otherwise exempted or reduced by PRC laws and regulations or in accordance with arrangements or treaties between the PRC Government and the government of any other jurisdiction where such non-PRC resident investor is registered.

### **Environmental Matters**

We are subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments with respect to our logistics platform businesses, where our projects are normally required to undergo an environmental impact assessment by government-appointed third parties, and a report of such assessment needs to be submitted to the relevant environmental authorities in order to obtain their approval before commencing construction. Upon completion of each project, the relevant environmental authorities inspect the site to ensure the applicable environmental standards have been complied with, and the resulting report is presented together with other specified documents to the relevant construction administration authorities for their approval and recordation. Approval from the environmental authorities on such report is required before delivery of the properties. In the past, we have not experienced any difficulties in obtaining such approvals for commencement of construction and delivery of completed projects. Our operations have not been subject to payment of material fines or penalties for violations of environmental regulations.

Due to the relatively low impact of our operations on the environment, our environmental compliance costs have not been substantial. There was no environmental compliance cost incurred for both fiscal years 2016 and 2015.

The following chart shows our corporate structure as of March 31, 2016, including all our significant subsidiaries, with the shareholding percentage and jurisdiction of incorporation of each company:



^ For identification purpose only



## **D. Property, Plants and Equipment**

### **Property**

#### ***Hong Kong***

*Headquarters.* We entered into a tenancy agreement for a property at Suite 2204, 22nd Floor, Sun Life Tower, The Gateway, 15 Canton Road, Tsimshatsui, Kowloon, Hong Kong, for a term of approximately three years commencing from March 17, 2014 to March 16, 2017, which comprised approximately 1,512 square feet.

#### ***People's Republic of China***

*Office and sales facilities.* We own an administrative tower, a 5-story building with total gross floor area of approximately 10,757 square meters, and a sales center, a 2-story building with total gross floor area of approximately 2,265 square meters for China Northeast Logistics City—Tieling and are located at China Northeast Logistics City—Tieling, Zuanshi Road, Xincheng District, Tieling, Liaoning Province, PRC. We have land use rights and building ownership rights for the buildings in which our China Northeast Logistics City—Tieling office and sales center are located. We own an administrative office with total gross floor area of approximately 1,300 square meters and a sales office with total gross floor area of approximately 1,105 square meters for China Northeast Logistics City—Dezhou and are located on 4/F and 1/F of No. 1 Exchange Plaza, at China Northeast Logistics City—Dezhou, 3777 Dexian Dajie, Decheng District, Dezhou, Shandong Province, PRC, which are staffed by management, office and sales personnel. We have land use rights for the building in which our China Northeast Logistics City—Dezhou administrative office and sales office are located. Our China administrative office for Shenzhen head office is located at 18/F-21/F, Block 12, Tiedong Logistics Zone, Chevalier Avenue, Pinghu Street, Pinghu, Longgang District, Shenzhen, PRC, which is comprised of approximately 6,671 square meters. We own an administrative office with total gross area of approximately 3,286 square meters and a sales office with total gross floor area of approximately 1,268 square meters for China Glorious City—Hengyang and are located at China Glorious City—Hengyang, Cailun Dadao, Shigu District, Hengyang, Hunan Province, PRC. We have land use rights for the building in which our China Glorious City—Hengyang administrative office and sales office are located. We own an administrative office with total gross floor area of approximately 2,551 square meters and a sales office with total gross floor area of approximately 1,100 square meters for China Glorious City—Zhoukou, and are located at China Glorious City—Zhoukou, 500 meters East of Intersection of Taishan Road and Zhouhuai Road, Chuanhui District, Zhoukou, Henan Province, PRC. We have land use rights for the buildings in which our China Glorious City—Zhoukou administrative office and sales office are located. We own an administrative office with total gross area of approximately 2,062 and a sales office with total gross floor area of approximately 807 square meters for China Glorious City—Handan and are located at China Glorious City—Handan, South-West Corner of Intersection Fudong Street and Handa Road, Handan County, Handan, Hebei Province, PRC. We have land use rights for the building in which our Handan City administrative office and sales offices are located. Our administrative and sales offices for China Glorious City—Nanyang are located at 1st Floor, Administrative Building of Tianrun Full Regal Hotel, No. 6 Yingbin Road, Nanyang, Henan Province, PRC, which are comprised of approximately 1,586 and 1,321 square meters of gross floor area.

*Properties for sale and lease.* China Northeast Logistics City—Tieling will cover a planned GFA of approximately 4.1 million square meters. As of March 31, 2016, construction of approximately 501,000 square meters of trade centers and residential properties were completed, out of which, approximately 324,000 square meters were sold; whereas among approximately 2,700 completed trade center units for lease, approximately 780 units were leased out. China Northeast Logistics City—Dezhou is expected to provide GFA of approximately 15.0 million square meters. As of March 31, 2016, construction of approximately 236,000 square meters of trade centers were completed, out of which, approximately 198,000 square meters were sold. China Glorious City—Zhoukou is expected to provide GFA of approximately 13.2 million square meters. As of March 31, 2016, construction of approximately 250,000 square meters of trade centers were completed, out of which, approximately 217,000 square meters were sold.

### **Item 4A. Unresolved Staff Comments**

**None.**

### **Item 5. Operating and Financial Review and Prospects**

*This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act, including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words “expect,” “anticipate,” “intend,” “believe,” the negative of such terms or other comparable terminology. All forward-looking statements included in this document are based on information available to us on the date hereof, and we undertake no obligation to update any such forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information set forth above in “Item 3. Key Information—D. Risk Factors.” We caution you that our business and financial performance are subject to substantial risks and uncertainties, including the factors identified in “Item 3. Key Information—D. Risk Factors,” that could cause actual results to differ materially from those in the forward-looking statements.*

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this Annual Report. Some of the information contained in this discussion and analysis constitutes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this Annual Report, particularly those under "Cautionary Statement Concerning Forward-Looking Statements" and "Risk Factors."*

The Company was previously a wholly-owned subsidiary of Man Sang Holdings, Inc. ("MSHI"), a United States domestic company incorporated in the State of Nevada whose common stocks were listed on the NYSE MKT with ticker symbol "MHJ". On August 25, 2009, at a general meeting, for the purpose of the redomicile of MSHI from the United States to the British Virgin Islands, the shareholders of MSHI resolved to carry out a group reorganization (the "Reorganization") whereby, inter alia, MSHI was dissolved and liquidated and the Company contractually assumed all rights, title, obligations and liabilities of MSHI pursuant to the terms and subject to the conditions of the agreement and plan of the dissolution and liquidation of MSHI. As a result of the Reorganization, the Company succeeded MSHI as the holding company and its subsidiaries ("the Group") on August 25, 2009 with its ordinary shares being listed on the NYSE MKT as a non-United States domestic company. From its inception in August 1995 through the effective date of the Reorganization on August 25, 2009, the Company was a wholly-owned subsidiary of MSHI.

Upon the effective date of the Reorganization, the Company and its subsidiaries continued to conduct the business previously conducted by MSHI and its subsidiaries (including the Company). Although the dissolution and liquidation of MSHI resulted in the cessation of MSHI as the holding company of the Group, the dissolution and liquidation had no material impact on our financial condition or operating results, other than the costs incurred in connection with its dissolution and liquidation. As the Company contractually assumed all rights, title, obligations and liabilities of MSHI upon the terms and subject to the conditions of the agreement and plan of the dissolution and liquidation, there was a continuation of the risks and benefits to the ultimate controlling owners that existed prior to the dissolution and liquidation of MSHI. Accordingly, the Reorganization has been accounted for as a reorganization of entities under common control in a manner similar to pooling-of-interests. On this basis, the Company has been treated as the holding company of MSHI in all periods presented in the financial statements rather than from the effective date of the Reorganization.

Subsequent to the Reorganization, pursuant to an agreement and plan of merger or the Merger Agreement, dated as of February 19, 2010, by and among the Company, China Metro-Rural Limited and Creative Gains Limited ("Creative Gains") (a wholly-owned subsidiary of the Company), Creative Gains was merged with and into China Metro (the "Merger"). Immediately after the Merger, Creative Gains ceased and China Metro became a wholly-owned subsidiary of the Company. The acquisition of equity interest of China Metro-Rural Limited has been accounted for as a combination of entities under common control in a manner similar to pooling of interests as both the Company and China Metro-Rural Limited were controlled by Mr. Cheng Chung Hing, Ricky immediately prior to and immediately after the Merger. On this basis, the consolidated financial statements of China Metro-Rural Holdings Limited for periods prior to the Merger have been restated to include, to the extent of the equity interest of China Metro-Rural Limited held by Mr. Cheng Chung Hing, Ricky, the assets and liabilities and results of operations of China Metro-Rural Limited for those periods as if China Metro-Rural Holdings Limited had owned China Metro-Rural Limited at the beginning of the financial period reported in the consolidated financial statements or when MSBVI and China Metro-Rural Limited came under common control by Mr. Cheng Chung Hing, Ricky, whichever is later, and all assets and liabilities of China Metro-Rural Limited have been stated at historical carrying amounts. The acquisition by the Company of interest owned by all the shareholders of China Metro, including Mr. Cheng, was treated as an equity transaction at the completion date of the Merger.

On July 28, 2010, the Company declared a dividend to its shareholders by way of distribution in specie of the entire equity interest in MSIL held by the Company, represented by 494 million ordinary shares, or the Distribution, and was completed in August 2010. Upon the completion of the Distribution, the Group no longer held any interests in MSIL and has discontinued its pearls and real estate businesses, which was previously operated through MSIL.

On November 30, 2012, the Company disposed of its entire interest in CFC HK and, in effect, disposed of its entire interest in Qiqihar CFC, which represented Qiqihar Discontinued Operations. The Group will continue to carry out its rural-urban migration and city re-development business through other subsidiaries. Details of results of Qiqihar Discontinued Operations is set forth above in “Item 3. Key Information—A. Selected Financial Data”.

Unless otherwise specified, references to Notes to the audited consolidated financial statements are to the Notes to our audited consolidated financial statements as of March 31, 2016 and 2015 and for the years ended March 31, 2016, 2015 and 2014.

### **Subsequent Event**

After the end of the fiscal year ended March 31, 2016, on May 20, 2016, the Company announced plans to effectuate the Privatization. The Company intends to effectuate the Privatization through a merger with an indirect wholly-owned subsidiary of the Company. Upon the terms and subject to the conditions set forth in an Agreement and Plan of Merger to which the Company is a party, holders of the Company’s ordinary shares—other than certain specified affiliates, other holders and holders who properly perfect applicable dissenters’ rights—will receive US\$1.03 per share in cash, without interest, as a result of the merger. Following the Privatization, the Company plans to terminate the Company’s public reporting obligations (and associated costs) under the Exchange Act and to delist from the NYSE MKT.

### **Overview**

At the end of the fiscal year ended March 31, 2016, the Group had two main business segments, our Agricultural Logistics Operation and Rural-Urban Migration and City Re-development Operation.

Our Agricultural Logistics Operations are engaged in the development and operations of large scale, integrated agricultural logistics and trade centers in Northeast China that facilitate a relationship between sellers and buyers of agricultural products and small goods, provide relevant physical platform and timely marketing information and intelligence, provide a transparent and competitive market price discovery mechanism and provide infrastructure to enhance the living standards of those from the rural area.

Our Rural-Urban Migration and City Re-development Operations is comprised of (1) servicing and assignments of development rights and (2) development and sales of residential, commercial and other auxiliary properties in new city center districts.

### **Critical Accounting Policies**

Management’s discussion and analysis of results of operations and financial condition are based upon our consolidated financial statements. These statements have been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. These principles require management to make certain estimates and assumptions that affect amounts reported and disclosed in the consolidated financial statements and related notes. Actual results could differ from these estimates. Periodically, we review all significant estimates and assumptions affecting the consolidated financial statements and record the effect of any necessary adjustments.

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

### **Revenue and Other Income**

#### **Revenue from sales of properties**

Revenue from sales of properties is recognized when the risks and rewards related to the properties are transferred to purchasers, which is when the construction of relevant properties has been completed, title to the properties has been delivered to the purchasers and collectability of related receivables is reasonably assured. Revenue is recognized only to the extent collectability of such receivable is reasonably assured.

### **Revenue from servicing and assignments of development rights**

In its rural-urban migration and city re-development business, the Company develops and sells residential, commercial and other auxiliary properties as well as services and assigns the development rights to independent third party developers on portions of land plots that have already been designated by the local government under the framework agreement for development by such independent third parties.

In order for the independent third party developers to acquire land use rights within the land plots that have already been designated by the local government under the framework agreement, the Company is required to provide certain services by liaising between the local government and the independent third party developers to ensure the independent third party developers are able to secure the land use rights at a certain price. Once the independent third party developers have successfully secured the land use rights and the collectability of the related receivables is reasonably assured, the Company would recognize the related revenue for the services performed.

### **Revenue from sales of properties with operating leaseback**

As part of the Company's overall strategy to develop property projects with specific themes, in relation to sales of certain properties, immediately following sale of such properties, the Company leases back the properties from purchasers for periods ranging from 3 to 5 years either for an insignificant amount of rental payments or free of charge. As lease back of the properties for an insignificant amount of rental payments or free of charge was arranged as part of the sale of these properties, the Company determined the fair value of lease payments it would ordinarily make to lease such properties from other independent owners based on factors such as expected occupancy rates, rental yields etc. and included it as part of the sales consideration received with a corresponding debit to prepaid operating lease payments. Since the fair value of lease payments the Company would ordinarily make to lease such properties was estimated to be insignificant, the Company did not separately recognize it as part of the sales consideration received with a corresponding debit to prepaid operating lease payments. Such transactions are accounted for as a sale and operating leaseback given that as part of the sale transaction, the Company disposes of substantially all risks and rewards of owning the property. In concluding that substantially all risks and rewards of owning the property have been transferred, the Company considers the short period of the lease and the expected future rentals it could earn by letting out these properties, which are insignificant relative to the value of the property.

The leaseback is considered as an operating lease due to (i) the ownership of the property will not transfer back to the Company by the end of the lease term; (ii) the Company does not have the option to purchase the property at the end of the lease term; (iii) the lease term is not the major part of the economic life of the property; (iv) at the inception of the lease, the fair value of the property is significantly higher than the present value of the minimum lease payments; and (v) any gains or losses from the fluctuation in the fair value of the property rest to purchasers. In addition, operating leases rentals paid to purchasers are recorded as an expense on a straight line basis over the period of the lease.

### **Revenue from leasing of investment properties**

Rental income under operating leases is recognized in the period in which the properties are let out and on a straight-line basis over the term of the relevant lease, including the rent free periods.

### **Revenue from property management service**

Revenue from property management service is recognized when services are rendered.

### **Others**

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognized when the rights to receive payments have been established.

### ***Land Appreciation Tax***

Land appreciation tax provisions represent provisions for the estimated land appreciation tax payable in relation to our properties sold during a period. We make provisions based on our own calculations in accordance with our understanding of the relevant laws and regulations. Our estimate of land appreciation tax provisions requires us to use significant judgment with respect to the appreciation of land value and the allowability of deductible items for income tax purposes. Although there have been no disagreement with the tax authorities, disagreements with the tax authorities could subject us to additional taxes, and possibly, penalties.

### ***Valuation of Properties***

We state our investment properties, investment properties under construction and leasehold land and buildings at their fair value as non-current assets on our consolidated statements of financial position on the basis of valuations supported by a qualified independent professional valuer, Savills Valuation and Professional Services Limited. We provide the independent professional valuer with various information for the valuer to use as a basis for valuation. An analysis on the sensitivity of input used for the valuation is detailed in the consolidated financial statements of this Annual Report.

We state our properties held for sale classified as current assets on our consolidated statements of financial position, at the lower of cost and net realizable value on an individual property basis. Cost includes all development expenses, applicable borrowing costs and other direct costs attributable to the development of such properties. Net realizable value is determined by reference to the prevailing market prices on an individual property basis.

We state our property, plant and equipment as non-current assets on our consolidated statements of financial position. We state our property, plant and equipment at cost less accumulated depreciation and impairment losses, with the exception of leasehold land and buildings as discussed above. Cost includes the direct costs, direct costs of construction and capitalized borrowing costs on related borrowings during the period of construction. Properties under development are transferred to the appropriate category of property, plant and equipment or properties held for sale when completed and ready for use.

During the fiscal year ended March 31, 2016, the amount of salaries capitalized in investment properties, investment properties under construction and properties under development were nil, nil and HK\$13,335,000, respectively. During the fiscal year ended March 31, 2015, the amount of salaries capitalized in investment properties, investment properties under construction and properties under development were nil, nil and HK\$13,569,000, respectively. The amounts of external (construction costs only) and internal costs (salaries and other indirect expenses that are directly attributable to construction of properties) incurred and capitalized during the fiscal year ended March 31, 2016 and 2015 were:

	2016			2015		
	Investment Properties HK\$'000	Investment properties under construction HK\$'000	Properties under development HK\$'000	Investment Properties HK\$'000	Investment properties under construction HK\$'000	Properties under development HK\$'000
External costs	—	4,138	849,068	—	—	1,318,201
Internal costs	—	—	17,576	—	—	17,672
	—	4,138	866,644	—	—	1,335,873

### ***Impairment of trade receivables***

The management determines the provision for impairment of trade receivables on a regular basis. This estimate is based on the credit history of its customers and prevailing market conditions. Management reassesses the provision for impairment of trade receivables at the statement of financial position date. In respect of the trade receivables past due but not impaired, all of which are related to sales of properties in mainland China, they are due to the reason that longer time is normally required for customers to apply for mortgages in the location at which the Company's subsidiaries are operated. As most of these mortgages were approved by banks and balances were settled subsequent to the date of statement of financial position and resources have been invested to monitor the progress of mortgage application, management considered that these receivables are fully recoverable.

### ***Recoverability of completed properties held for sale and properties under development***

We perform a regular review on the carrying amounts of completed properties held for sale and properties under development as these property projects are in their early stages and we have invested significant amount of capital in them. Furthermore, all our current property projects are located in China as discussed under “Business Overview” where the PRC Government can exercise significant control over China’s economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Accordingly, policies and other measures taken by the PRC Government to regulate the economy could have a significant negative impact on economic conditions in China, with a resulting negative impact on our business which is further discussed under “Risk Relating to Doing Business in the PRC”.

More recently, the China’s real GDP has continued to grow even though at a slower rate resulting from a recent global economic downturn which also slowdown the economy in the PRC. Accordingly, the PRC Government has introduced certain stimulus package aimed at offsetting the slow down brought by the financial crisis. In addition, the PRC Government has introduced certain macroeconomic measures to control perceived overinvestment in the real property market. Considering the overall state of the PRC’s economy, specifically the real estate market which could potentially have a negative effect on the recoverability our property projects, we will consider write-down of our property projects when the estimated net realizable value of these property projects. In determining the net realizable value, besides from the aforementioned factors, we will also consider the latest economic measures introduced by the local government, recent global and local economic developments, recent sales transactions of the Group and other similar properties in the surrounding areas, marketability of the Group’s existing properties, market survey reports available from independent property valuers, internally available information and management’s expectation on future sales.

### ***Impairment of long-lived assets***

We conduct impairment review of assets when events or changes in circumstances indicate that their carrying amount may not be recoverable or annually in accordance with relevant accounting standards. An impairment loss is recognized when the carrying amount of an asset is lower than the greater of its fair value less costs to sell or the value in use. In determining the value in use, we assess the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Estimates and judgments are applied in determining these future cash flows and the discount rate.

### ***Compound financial instruments***

Compound financial instruments issued by the Company comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The derivative component of the convertible bonds is recognized initially at the fair value. The liability component is recognized initially at the difference between the fair value of the convertible bonds as a whole and the fair value of the derivative component. Any directly attributable transaction costs are allocated to the derivative financial liability and the liability components in proportion to their initial carrying amounts.

### ***Derivative financial instruments***

Derivative financial instruments issued by the Company comprise warrants that can be exercised to purchase share capital of the Company at the option of the holder and derivative component of convertible bonds. The number of shares to be purchased upon exercise of the warrants or conversion of convertible bonds does not vary with changes in their fair values. Derivative liabilities instruments are initially and subsequently measured at fair value through profit or loss and any gains or losses derived from its changes in fair values are recognized in the consolidated income statement unless the derivative financial liabilities are qualified for hedge accounting. Transaction costs attributable to the issue of derivative financial instruments are charged to the consolidated income statement during the period in which they are incurred. The fair values of derivative financial instruments were determined by management based in part on valuations performed by qualified independent professional valuers, APAC Asset Valuation and Consulting Limited. We provide the independent professional valuers with various information for the valuers to use as a basis for valuations. An analysis on the sensitivity of input used for the valuation is detailed in the consolidated financial statements of this Annual Report.

## A. Operating Results

### Consolidated Results of Operations

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

	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Revenue	220,866	1,400,753	387,016
Cost of sales	(31,927)	(817,112)	(133,105)
Gross profit	188,939	583,641	253,911
Other income, net	41,206	2,888	16,685
Other gains/(losses), net	268,311	40,584	101,412
Selling expenses	(54,754)	(35,304)	(31,171)
Administrative expenses	(398,386)	(252,334)	(154,948)
Operating profit	45,316	339,475	185,889
Finance (costs)/income—net	(22,281)	7,842	10,492
Share of loss of an associate	(2,368)	(12,813)	(2,258)
Profit before income tax	20,667	334,504	194,123
Income tax expenses	(84,966)	(280,455)	(86,839)
<b>(Loss)/profit for the year</b>	<b>(64,299)</b>	<b>54,049</b>	<b>107,284</b>
Attributable to:			
Equity holders of the Company	(49,250)	61,246	104,331
Non-controlling interests	(15,049)	(7,197)	2,953
	<b>(64,299)</b>	<b>54,049</b>	<b>107,284</b>

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

#### Revenue

Our revenue decreased by HK\$1,179.9 million, or 84%, from HK\$1,400.8 million for the fiscal year ended March 31, 2015 to HK\$220.9 million for the fiscal year ended March 31, 2016.

	2016 HK\$ million	2015 HK\$ million	Change %
Agricultural Logistics Operation	52.1	74.8	-30.3
Rural-Urban Migration and City Re-development Operation	168.8	1,326.0	-87.3
	<b>220.9</b>	<b>1,400.8</b>	<b>-84.2</b>

#### Agricultural Logistics Operation

Revenue in the fiscal year ended March 31, 2015 was approximately HK\$74.8 million, which consisted primarily of sales of trade center units of approximately HK\$68.0 million. Revenue in the fiscal year ended March 31, 2016 was approximately HK\$52.1 million, which consisted primarily of sales of trade center units and supporting facilities of approximately HK\$42.1 million. The change was attributable to a decrease in the sales of trade center units and supporting facilities. In the fiscal year ended March 31, 2016, there were sales of trade center units and supporting facilities of approximately 80 units and 8,100 square meters, which represented a decrease of approximately 60.0% and 52.1% as compared with the number of units and gross floor area sold in the prior year, which were approximately 200 units and 16,900 square meters, respectively. In the fiscal year ended March 31, 2016, our average selling price was HK\$5,205 per square meter, which represented an increase of approximately 18.2% as compared with the average selling price of HK\$4,405 per square meter in the fiscal year ended March 31, 2015. The decrease in number of units was attributable to the general decrease in demand while the increase in selling price was attributable to the different types of units being sold in the current year. The remainder of revenue in the fiscal year ended March 31, 2016 represented rental income from leases of trade center units of approximately HK\$3.3 million, property management fee income of approximately HK\$4.2 million and hotel income of approximately HK\$2.5 million, while the remainder of revenue in the fiscal year ended March 31, 2015 represented rental income from leases of trade center units of approximately HK\$2.9 million, property management fee income of approximately HK\$2.8 million and hotel income of approximately HK\$1.1 million.

### Rural-Urban Migration and City Re-development Operation

Revenue in the fiscal year ended March 31, 2016 was approximately HK\$168.8 million which was attributable to sales of trade center units of HK\$167.9 million and rental income from leases of trade center units and land parcels of HK\$0.9 million. Revenue in the fiscal year ended March 31, 2015 was approximately HK\$1,326.0 million, which was attributable to sales of trade center units. In the fiscal year ended March 31, 2016, there were sales of trade center units of approximately 150 units and 22,100 square meters, and our average selling price was HK\$7,585 per square meter. In the fiscal year ended March 31, 2015, there were sales of trade center units of approximately 2,100 units and 195,000 square meters, and our average selling price was HK\$6,805 per square meter. The decrease was approximately 92.9% and 88.7% as compared with the number of units and gross floor area sold and in the prior year. The increase was approximately 11.5% as compared with average selling price. The decrease in sales was primarily attributable to a decrease in the sales of trade center units as less completed properties were available for sales while the increase in selling price was attributable to the different types of units being sold.

### ***Cost of Sales***

Our cost of sales decreased by HK\$785.2 million or 96.1%, from HK\$817.1 million for the fiscal year ended March 31, 2015 to HK\$32.0 million for the fiscal year ended March 31, 2016.

	<u>2016</u>	<u>2015</u>	<u>Change</u>
	<u>HK\$ million</u>	<u>HK\$ million</u>	<u>%</u>
Agricultural Logistics Operation	34.6	51.2	-32.4
Rural-Urban Migration and City Re-development Operation	(2.6)	765.9	-100.4
	<u>32.0</u>	<u>817.1</u>	<u>-96.1</u>

### Agricultural Logistics Operation

In the fiscal year ended March 31, 2015, our cost of sales was approximately HK\$51.2 million. In the fiscal year ended March 31, 2016, our cost of sales was approximately HK\$34.6 million. The cost of sales was based on direct and indirect costs of construction, land grant fee and capitalized expenses attributable to the area of properties that were recognized as sales as well as the costs associated with the provision of accommodation and food and beverages services at the hotel.

### Rural-Urban Migration and City Re-development Operation

In the fiscal year ended March 31, 2015, our cost of sales was HK\$765.9 million as assignment of development rights did not incur any costs. In the fiscal year ended March 31, 2016, our cost of sales was a credit of approximately HK\$2.7 million. The cost of sales was based on direct and indirect costs of construction, land grant fee and capitalized expenses attributable to the area of properties that were recognized as sales. The decrease was mainly because of over provision for costs of completed properties sold in prior years of HK\$89.8 million as a result of change in estimate on construction cost arising from re-negotiation of costs of construction contracts with contractors during the current fiscal year.

### ***Gross Profit***

Our gross profit decreased by HK\$394.7 million, or 67.6%, from HK\$583.6 million for the fiscal year ended March 31, 2015 to HK\$188.9 million for the fiscal year ended March 31, 2016. The gross profit margin, or gross profit as a percentage of total revenue, increased from 41.7% for the fiscal year ended March 31, 2015 to 85.5% for the fiscal year ended March 31, 2016. The increase was mainly due to over provision for costs of completed properties sold in prior years and the increase in average selling price in the fiscal year ended 31 March 2016.

### Agricultural Logistics Operation

Our gross profit decreased by HK\$6.1 million, or 25.8%, from HK\$23.6 million for the fiscal year ended March 31, 2015 to HK\$17.5 million for the fiscal year ended March 31, 2016. The gross profit margin, or gross profit as a percentage of total revenue, increased from 31.6% for the fiscal year ended March 31, 2015 to 33.6% for the fiscal year ended March 31, 2016. The increase in gross profit margin was primarily due to an increase in the average selling price of the sales of trade center units and supporting facilities.



### Rural-Urban Migration and City Re-development Operation

Our gross profit decreased by HK\$388.7 million or 69.4%, from HK\$560.1 million for the fiscal year ended March 31, 2015 to HK\$171.4 million for the fiscal year ended March 31, 2016. The gross profit margin, or gross profit as a percentage of its total revenue, increased from 42.2% for the fiscal year ended March 31, 2015 to 101.5% for the fiscal year ended March 31, 2016. The increase in gross profit margin was primarily due to over provision for costs of completed properties sold in prior years of HK\$89.8 million.

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

In the fiscal year ended March 31, 2015, our other income and gains were approximately HK\$43.5 million, primarily from fair value gain on investment properties of approximately HK\$4.2 million, and a decrease in fair value of derivative components of convertible bonds and warrants of approximately HK\$62.0 million which was offset by the decrease in fair values of leasehold land and buildings of approximately HK\$23.3 million.

In the fiscal year ended March 31, 2016, our other income and gains were approximately HK\$309.5 million, primarily from Gain on deemed disposal of subsidiaries of approximately HK\$133.3 million, and a decrease in fair value of derivative components of convertible bonds and warrants of approximately HK\$143.2 million arising from the decrease in the Company's share price and the approach of the maturity dates which was offset by the decrease in fair values of leasehold land and buildings of approximately HK\$7.9 million and fair value loss on investment properties of approximately HK\$7.2 million arising from the general decrease in the property market in the PRC.

### ***Selling Expenses***

Our selling expenses increased by HK\$19.5 million, or 55.2%, from HK\$35.3 million for the fiscal year ended March 31, 2015 to HK\$54.8 million for the fiscal year ended March 31, 2016.

	<u>2016</u>	<u>2015</u>	<u>Change</u>
	<u>HK\$ million</u>	<u>HK\$ million</u>	<u>%</u>
Agricultural Logistics Operation	8.9	11.7	-23.9
Rural-Urban Migration and City Re-development Operation	45.9	23.6	94.5
	<u>54.8</u>	<u>35.3</u>	55.2

### Agricultural Logistics Operation

Our selling expenses decreased by HK\$2.8 million, or 23.9%, from HK\$11.7 million for the fiscal year ended March 31, 2015 to HK\$8.9 million for the fiscal year ended March 31, 2016. The decrease in selling expenses was primarily due to the decrease in advertising expenses by approximately HK\$1.1 million. As a percentage of revenue, selling expenses increased from 15.6% for the fiscal year ended March 31, 2015 selling expenses increased to 17.1% for the fiscal year ended March 31, 2016.

### Rural-Urban Migration and City Re-development Operation

Our selling expenses increased by HK\$22.3 million, or 94.5%, from HK\$23.6 million for the fiscal year ended March 31, 2015 to HK\$45.9 million for the fiscal year ended March 31, 2016. The increase in selling expenses was primarily due to increase in salaries and allowances by approximately HK\$5.5 million and advertising expenses by approximately HK\$15.7 million. As a percentage of revenue, selling expenses increased from 1.8% for the fiscal year ended March 31, 2015 to 27.2% for the fiscal year ended March 31, 2016. The increase was due to promotion and advertising expenses incurred for sales at China Glorious City—Zhoukou and for pre-sales at China Glorious City—Hengyang during the current year.

### ***Administrative Expenses***

Our administrative expenses of HK\$398.4 million for the year ended March 31, 2016 was comprised of HK\$310.7 million (2015: HK\$197.9 million) from Agricultural Logistics Operation, HK\$74.3 million (2015: HK\$47.0 million) from Rural-Urban Migration and City Re-development Operation and HK\$13.4 million (2015: HK\$12.4 million) from corporate expenses. Administrative expenses increased by approximately HK\$143.4 million, or 56.8%, from approximately HK\$252.3 million in the fiscal year ended March 31, 2015 to approximately HK\$395.7 million in the fiscal year ended March 31, 2016. The overall increase in our administrative expenses was primarily attributable to the increase in impairment for deposits paid for land use right of HK\$124.4 million during the fiscal year ended March 31, 2016. During the fiscal year ended March 31, 2016, we had been in discussions with the PRC local government about the utilization plan of the deposits but we neither were able to reach a settlement plan nor agreed a payment schedule. Therefore, we were in the opinion that the recoverability of this balance was remote and recorded the impairment.

	<u>2016</u>	<u>2015</u>	<u>Change</u>
	<u>HK\$ million</u>	<u>HK\$ million</u>	<u>%</u>
Agricultural Logistics Operation	310.7	192.9	61.1
Rural-Urban Migration and City Re-development Operation	74.3	47.0	58.1
Corporate expenses	13.4	12.4	8.1
	<u>398.4</u>	<u>252.3</u>	56.8

### ***Agricultural Logistics Operation***

Administrative expenses increased by approximately HK\$117.8 million, or 61.1%, from approximately HK\$192.9 million in the fiscal year ended March 31, 2015 to approximately HK\$310.7 million in the fiscal year ended March 31, 2016. The increase in administrative expenses was primarily due to the increase in impairment for deposits paid for land use right of HK\$124.4 million, during the fiscal year ended March 31, 2016, we had been in discussions with the PRC local government about the utilization plan of the deposits but we neither were able to reach a settlement plan nor agreed a payment schedule. Therefore, we were in the opinion that the recoverability of this balance was remote and recorded the impairment, which was partly offset by the decrease in provision for litigation claims of HK\$14.8 million.

### ***Rural-Urban Migration and City Re-development Operation***

Administrative expenses increased by approximately HK\$27.3 million, or 58.1%, from approximately HK\$47.0 million in the fiscal year ended March 31, 2015 to approximately HK\$74.3 million in the fiscal year ended March 31, 2016. The increase in administrative expenses was primarily due to the increase in land use tax of HK\$14.5 million as more land use rights were owned by the Group, the increase in salaries and allowances of HK\$5.4 million and the increase in rental expenses of HK\$3.3 million.

### ***Net Finance (Costs)/Income***

In the fiscal year ended March 31, 2016, we received interest income from bank deposits of approximately HK\$1.6 million. In the fiscal year ended March 31, 2015, we received interest income from bank deposits of approximately HK\$1.9 million and interest income on other receivables of approximately HK\$12.1 million.

In the fiscal year ended March 31, 2016, we incurred interest expense of approximately HK\$323.1 million, out of which HK\$299.3 million was capitalized in properties under development and investment properties under development and the rest of HK\$23.8 million was recognized as finance costs in the consolidated income statement. In the fiscal year ended March 31, 2015, we incurred interest expense of approximately HK\$305.1 million, out of which HK\$298.9 million was capitalized in properties under development and property, plant and equipment and the remainder of HK\$6.2 million was recognized as finance costs in the consolidated income statement. In the fiscal year ended March 31, 2016, our weighted average borrowings and weighted average interest rate were approximately HK\$1,690.5 million and 19.1% per annum (2015: approximately HK\$1,916.8 million and 16.9% per annum), respectively.

### ***Profit Before Income Tax***

As a result of the foregoing, we had a profit before income tax of approximately HK\$20.7 million in the fiscal year ended March 31, 2016 and HK\$334.5 million in the fiscal year ended March 31, 2015.

## ***Taxation***

In the fiscal year ended March 31, 2016, our income tax expenses of HK\$85.0 million consisted of net current income tax expenses of HK\$205.2 million and deferred tax expense, arising from fair value gain on investment properties, of HK\$0.3 million and deferred tax credit, arising from tax loss for the current year, of HK\$17.8 million and arising from temporary difference that was attributable to the provisional tax payments made based on the balances of receipt in advance related to the sales of completed properties, of HK\$102.7 million. In the fiscal year ended March 31, 2015, our income tax expenses of HK\$280.4 million consisted of net current income tax expenses of HK\$287.7 million, deferred tax expense, arising from utilization of tax losses and fair value gain on investment properties of HK\$1.2 million and HK\$1.2 million respectively, and deferred tax credit, arising from tax loss for the current year, of HK\$9.7 million.

In fiscal year ended March 31, 2016, the effective tax rate was positive 411.1%. In fiscal year ended March 31, 2015, the effective tax rate was positive 83.8%. The increase in effective tax rate was primarily attributable to increase in land appreciation tax as a result of reduction in certain construction costs after negotiation with certain contractors.

## ***(Loss)/Profit for the Year***

In the fiscal year ended March 31, 2016, we had a net loss of approximately HK\$64.3 million as a result of the cumulative effect of the factors discussed above. In the fiscal year ended March 31, 2015, we generated a net profit of approximately HK\$54.0 million.

## ***Non-Controlling Interests***

In the fiscal years ended March 31, 2015 and 2016, loss and profit attributable to non-controlling interests was approximately HK\$7.1 million and HK\$15.0 million, respectively.

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

### ***Revenue***

Our revenue increased by HK\$1,013.8 million, or 262%, from HK\$387.0 million for the fiscal year ended March 31, 2014 to HK\$1,400.8 million for the fiscal year ended March 31, 2015.

	2015 HK\$ million	2014 HK\$ million	Change %
Agricultural Logistics Operation	74.8	215.2	-65.3
Rural-Urban Migration and City Re-development Operation	1,326.0	171.8	571.8
	<u>1,400.8</u>	<u>387.0</u>	262.0

### **Agricultural Logistics Operation**

Revenue in the fiscal year ended March 31, 2014 was approximately HK\$215.2 million, which consisted primarily of sales of trade center units and supporting facilities of approximately HK\$205.0 million. Revenue in the fiscal year ended March 31, 2015 was approximately HK\$74.8 million, which consisted primarily of sales of trade center units of approximately HK\$68.0 million. The change was attributable to a decrease in the sales of trade center units and supporting facilities. In the fiscal year ended March 31, 2015, there were sales of trade center units and supporting facilities of approximately 200 units and 16,900 square meters, which represented a decrease of approximately 47.3% and 50.3% as compared with the number of units and gross floor area sold in the prior year, which were approximately 380 units and 34,000 square meters, respectively. In the fiscal year ended March 31, 2015, our average selling price was HK\$4,405 per square meter, which represented a decrease of approximately 28.8% as compared with the average selling price of HK\$6,189 per square meter in the fiscal year ended March 31, 2014. The remainder of revenue in the fiscal year ended March 31, 2015 represented rental income from leases of trade center units of approximately HK\$2.9 million, property management fee income of approximately HK\$2.8 million and hotel income of approximately HK\$1.1 million, while the remainder of revenue in the fiscal year ended March 31, 2014 represented rental income from leases of trade center units of approximately HK\$4.8 million and property management fee income of approximately HK\$5.4 million.

### **Rural-Urban Migration and City Re-development Operation**

Revenue in the fiscal year ended March 31, 2015 was approximately HK\$1,326.0 million, which was attributable to sales of trade center units. In the fiscal year ended March 31, 2015, there were sales of trade center units of approximately 2,100 units and 195,000 square meters, and our average selling price was HK\$6,805 per square meter. Revenue in the fiscal year ended March 31, 2014 was approximately HK\$171.8 million which was attributable to revenue from servicing and assignments of development rights. The increase in sales was primarily attributable to the completion of a project at China Glorious City—Zhoukou.

### ***Cost of Sales***

Our cost of sales increased by HK\$684.0 million or 513.9%, from HK\$133.1 million for the fiscal year ended March 31, 2014 to HK\$817.1 million for the fiscal year ended March 31, 2015.

	<u>2015</u>	<u>2014</u>	<u>Change</u>
	<u>HK\$ million</u>	<u>HK\$ million</u>	<u>%</u>
Agricultural Logistics Operation	51.2	133.1	61.5
Rural-Urban Migration and City Re-development Operation	765.9	—	—
	<u>817.1</u>	<u>133.1</u>	<u>513.8</u>

#### **Agricultural Logistics Operation**

In the fiscal year ended March 31, 2014, our cost of sales was approximately HK\$133.1 million. In the fiscal year ended March 31, 2015, our cost of sales was approximately HK\$51.2 million. The cost of sales was based on direct and indirect costs of construction, land grant fee and capitalized expenses attributable to the area of properties that were recognized as sales as well as the costs associated with the provision of accommodation and food and beverages services at the hotel.

#### **Rural-Urban Migration and City Re-development Operation**

In the fiscal year ended March 31, 2014, our cost of sales was nil as assignment of development rights did not incur any costs. In the fiscal year ended March 31, 2015, our cost of sales was approximately HK\$765.9 million. The cost of sales was based on direct and indirect costs of construction, land grant fee and capitalized expenses attributable to the area of properties that were recognized as sales.

### ***Gross Profit***

Our gross profit increased by HK\$329.7 million, or 29.8%, from HK\$253.9 million for the fiscal year ended March 31, 2014 to HK\$583.6 million for the fiscal year ended March 31, 2015. The gross profit margin, or gross profit as a percentage of total revenue, decreased from 65.6% for the fiscal year ended March 31, 2014 to 41.7% for the fiscal year ended March 31, 2015. The decrease was mainly due to no revenue was generated from assignments of development rights with gross profit margin of 100% in the fiscal year ended 31 March 2015.

#### **Agricultural Logistics Operation**

Our gross profit decreased by HK\$58.5 million, or 71.3%, from HK\$82.1 million for the fiscal year ended March 31, 2014 to HK\$23.6 million for the fiscal year ended March 31, 2015. The gross profit margin, or gross profit as a percentage of total revenue, decreased from 38.2% for the fiscal year ended March 31, 2014 to 31.6% for the fiscal year ended March 31, 2015. The decrease in gross profit margin was primarily due to a decrease in the average selling price of the sales of trade center units and supporting facilities.

#### **Rural-Urban Migration and City Re-development Operation**

Our gross profit increased by HK\$388.3 million or 126.0%, from HK\$171.8 million for the fiscal year ended March 31, 2014 to HK\$560.1 million for the fiscal year ended March 31, 2015. The gross profit margin, or gross profit as a percentage of its total revenue, decreased from 100% for the fiscal year ended March 31, 2014 to 42.2% for the fiscal year ended March 31, 2015. The decrease in gross profit margin was primarily due to results for the fiscal year ended March 31, 2015 included revenue from sales of trade centers which carry a lower gross profit margin where revenue in the fiscal year ended March 31, 2014 included revenue from assignments of development rights with gross profit margin of 100%.

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

In the fiscal year ended March 31, 2014, our other income and gains were approximately HK\$118.1 million, primarily from government grants of approximately HK\$16.1 million and a decrease in fair value of derivative components of convertible bonds and warrants of approximately HK\$87.9 million.

In the fiscal year ended March 31, 2015, our other income and gains were approximately HK\$43.5 million, primarily from fair value gain on investment properties of approximately HK\$4.2 million, and a decrease in fair value of derivative components of convertible bonds and warrants of approximately HK\$62.0 million which was offset by the decrease in fair values of leasehold land and buildings of approximately HK\$23.3 million.

### ***Selling Expenses***

Our selling expenses increased by HK\$4.1 million, or 13.1%, from HK\$31.2 million for the fiscal year ended March 31, 2014 to HK\$35.3 million for the fiscal year ended March 31, 2015.

	<u>2015</u> <u>HK\$ million</u>	<u>2014</u> <u>HK\$ million</u>	<u>Change</u> <u>%</u>
Agricultural Logistics Operation	11.7	28.9	-59.5
Rural-Urban Migration and City Re-development Operation	23.6	2.3	926.1
	<u>35.3</u>	<u>31.2</u>	13.1

### **Agricultural Logistics Operation**

Our selling expenses decreased by HK\$17.2 million, or 59.5%, from HK\$28.9 million for the fiscal year ended March 31, 2014 to HK\$11.7 million for the fiscal year ended March 31, 2015. The decrease in selling expenses was primarily due to a decrease in advertising expenses by approximately HK\$16.1 million. As a percentage of revenue, selling expenses increased from 13.4% for the fiscal year ended March 31, 2014 to 15.6% for the fiscal year ended March 31, 2015. The increase was primarily attributable to slow down of sales in China Northeast Logistics City—Dezhou and China Northeast Logistics City—Tieling.

### **Rural-Urban Migration and City Re-development Operation**

Our selling expenses increased by HK\$21.3 million, or 926.1%, from HK\$2.3 million for the fiscal year ended March 31, 2014 to HK\$23.6 million for the fiscal year ended March 31, 2015. The increase in selling expenses was primarily due to an increase in advertising expenses of approximately HK\$11.6 million and increase in salaries and allowances of approximately HK\$7.2 million for sales personnel. As a percentage of revenue, selling expenses increased from 1.3% for the fiscal year ended March 31, 2014 to 1.7% for the fiscal year ended March 31, 2015. The increase was due to promotion and advertising expenses incurred for sales at China Glorious City—Zhoukou during the current year.

### ***Administrative Expenses***

Our administrative expenses of HK\$252.3 million for the year ended March 31, 2015 was comprised of HK\$192.9 million (2014: HK\$128.9 million) from Agricultural Logistics Operation, HK\$47.0 million (2014: HK\$13.6 million) from Rural-Urban Migration and City Re-development Operation and HK\$12.4 million (2014: HK\$12.4 million) from corporate expenses. Administrative expenses increased by approximately HK\$97.4 million, or 62.9%, from approximately HK\$154.9 million in the fiscal year ended March 31, 2014 to approximately HK\$252.3 million in the fiscal year ended March 31, 2015. The overall increase in our administrative expenses was primarily attributable to the increase in impairment for trade and other receivables from HK\$43,221,000 for the fiscal year ended March 31, 2014 to HK\$113,919,000 for the fiscal year ended March 31, 2015.

	<u>2015</u> <u>HK\$ million</u>	<u>2014</u> <u>HK\$ million</u>	<u>Change</u> <u>%</u>
Agricultural Logistics Operation	192.9	128.9	49.7
Rural-Urban Migration and City Re-development Operation	47.0	13.6	245.6
Corporate expenses	12.4	12.4	—
	<u>252.3</u>	<u>154.9</u>	62.9

### **Agricultural Logistics Operation**

Administrative expenses increased by approximately HK\$64.0 million, or 125.1%, from approximately HK\$128.9 million in the fiscal year ended March 31, 2014 to approximately HK\$192.9 million in the fiscal year ended March 31, 2015. The increase in administrative expenses was primarily due to an increase in provision for impairment of trade and other receivables of HK\$58.1 million resulted from the impairment of HK\$102,100,000 made for receivable arising from the sale of Qiqihar CFC and increase in provision for litigation claims of HK\$15.4 million and increase in salaries and allowances of HK\$5.7 million due to increase in headcount, which was partly offset by a decrease in heating expense of HK\$5.7 million, a decrease in consulting fee of HK\$5.0 million and a general decrease in other administrative expenses.

### Rural-Urban Migration and City Re-development Operation

Administrative expenses increased by approximately HK\$33.4 million, or 254.6%, from approximately HK\$13.6 million in the fiscal year ended March 31, 2014 to approximately HK\$47.0 million in the fiscal year ended March 31, 2015. The increase in administrative expenses was primarily due to an increase in provision for impairment of trade and other receivables of HK\$12.6 million, an increase in salaries and allowances of HK\$4.9 million, an increase in depreciation of approximately HK\$8.0 million and increase in bank charges of approximately HK\$3.6 million.

### ***Net Finance Income/(Costs)***

In the fiscal year ended March 31, 2014, we received interest income from bank deposits of approximately HK\$0.7 million and interest income on other receivables of approximately HK\$26.7 million. In the fiscal year ended March 31, 2015, we received interest income from bank deposits of approximately HK\$1.9 million and interest income on other receivables of approximately HK\$12.1 million.

In the fiscal year ended March 31, 2015, we incurred interest expense of approximately HK\$305.1 million, out of which HK\$298.9 million was capitalized in properties under development and property, plant and equipment and the remainder of HK\$6.2 million was recognized as finance costs in the consolidated income statement. In the fiscal year ended March 31, 2014, we incurred interest expense of approximately HK\$212.6 million, out of which HK\$195.7 million was capitalized in properties under development and investment properties under development and the rest of HK\$16.9 million was recognized as finance costs in the consolidated income statement. In the fiscal year ended March 31, 2015, our weighted average borrowings and weighted average interest rate were approximately HK\$1,916.8 million and 15.9% per annum (2014: approximately HK\$1,304.6 million and 16.3% per annum), respectively.

### ***Profit Before Income Tax***

As a result of the foregoing, we had a profit before income tax of approximately HK\$334.5 million in the fiscal year ended March 31, 2015 and HK\$194.1 million in the fiscal year ended March 31, 2014.

### ***Taxation***

In the fiscal year ended March 31, 2015, our income tax expenses of HK\$280.4 million consisted of net current income tax expenses of HK\$287.7 million, deferred tax expense, arising from utilization of tax losses and fair value gain on investment properties of HK\$1.2 million and HK\$1.2 million respectively, and deferred tax credit, arising from tax loss for the current year, of HK\$9.7 million. In the fiscal year ended March 31, 2014, our income tax expenses of HK\$86.8 million consisted of net current income tax expenses of HK\$83.3 million and deferred tax expense, arising from fair value gain on investment properties, of HK\$3.5 million.

In fiscal year ended March 31, 2015, the effective tax rate was positive 83.8%. In fiscal year ended March 31, 2014, the effective tax rate was positive 44.7%. The increase in effective tax rate was primarily attributable to the recognition of land appreciation tax for properties sold at China Glorious City—Zhoukou and the underprovision of land appreciation tax of HK\$30,300,000 for China Northeast Logistics City—Dezhou arising upon completion of the land appreciation tax clearance exercise conducted by the local tax bureau.

### ***Profit/(Loss) for the Year***

In the fiscal year ended March 31, 2015, we had a net profit of approximately HK\$54.0 million as a result of the cumulative effect of the factors discussed above. In the fiscal year ended March 31, 2014, we generated a net profit of approximately HK\$107.3 million.

### ***Non-Controlling Interests***

In the fiscal years ended March 31, 2015 and 2014, loss and profit attributable to non-controlling interests was approximately HK\$7.1million and HK\$3.0 million, respectively.

## B. Liquidity and Capital Resources

Our primary uses of cash are to pay for construction costs, land costs (principally the payment of land grant fees), infrastructure costs and consulting fees paid to architects and designers, as well as to service our indebtedness and fund working capital and normal recurring expenses. For the fiscal years ended March 31, 2015 and 2016, we financed our operations primarily through internally generated funds and bank and other borrowings and financing through capital markets. We expect to have sufficient sources of funds for the remainder of the year ending March 31, 2017 to support our current operations, as well as finance ongoing and future projects. These sources are expected to include: (1) rental and sales revenues; (2) debt financing arrangements with banks, including project financing and working capital facilities and (3) financing through capital markets.

As detailed in “Item 7.B CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS”, the Company issued certain convertible bonds in 2012 where under the terms of the Bonds, the Company undertakes to comply with financial covenants as follows:

- (i) Consolidated Tangible Net Worth shall not be less than HK\$1,253,000,000;
- (ii) Consolidated EBIT shall not at any time be less than 2.50 times Consolidated Finance Charges; and
- (iii) Consolidated Total Borrowings shall not at any time exceed 0.85 times Consolidated Tangible Net Worth.

The financial covenants shall be: (i) calculated and interpreted on a consolidated basis in accordance with IFRS and expressed in Hong Kong dollars; and (ii) tested by reference to the latest publicly available financial statements of the Group for each period of twelve months ending on the last day of the financial year and each period of twelve months ending on the last day of the first half of the financial year.

The Company obtained waivers from the holders of the Bonds in prior years in respect of any non-compliance of the above covenants for the fiscal years ended March 31, 2013, 2014, 2015 and 2016. No waiver has been obtained for subsequent periods as of July 1, 2016 as it is uncertain as to whether a waiver is required.

The Company also issued convertible bonds in December 2013, January 2014 and March 2014 that do not include financial covenants.

### *Working Capital*

Our current assets consist of completed properties held for sale, properties under development, trade receivables, prepayments, deposits and other receivables, restricted and pledged bank deposits and cash and cash equivalents. Our current liabilities primarily consist of trade payables, other payables, accruals and receipts in advance, interest-bearing bank and other borrowings and taxes payable.

As of March 31, 2015 and 2016, we had net current assets, representing the amount by which our current assets exceeded our current liabilities, of approximately HK\$981.6 million and HK\$691.9 million, respectively. The fluctuation in our working capital position during this period primarily reflected changes in cash provided by and used in operating, investing and financing activities when development of our industrial and agricultural trade centers, supporting commercial facilities, warehouse facilities and other facilities in China Northeast Logistics City—Tieling, China Northeast Logistics City—Dezhou and China Glorious City—Zhoukou that were completed and changes in the amount of construction fee payables and bank and other borrowings related to the development of China Northeast Logistics City—Tieling, China Northeast Logistics City—Dezhou, China Glorious City—Hengyang, China Glorious City—Zhoukou, China Glorious City—Handan and China Glorious City—Nanyang.



## Cash Flows

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

	Fiscal Year Ended March 31,		
	2016	2015	2014
	HK\$ in Thousands		
Net cash generated from /(used in) operating activities	68,477	400,711	(949,988)
Net cash used in investing activities	(38,699)	(70,810)	(14,972)
Net cash (used in)/generated from financing activities	(134,361)	(77,290)	746,807
Net increase/(decrease) in cash and cash equivalents	(104,583)	252,611	(218,153)
Effect of foreign exchange rate changes on cash and cash equivalents, net	(27,678)	3,872	(194)
Cash and cash equivalents at the beginning of the year	402,675	146,192	364,539
Cash and cash equivalents at the end of the year	<u>270,414</u>	<u>402,675</u>	<u>146,192</u>

### Cash Flow Generated From /(Used in) Operating Activities

We derive cash from operating activities principally from the sale of trade center units in Agricultural Logistics Operation and revenue from servicing and assignments of development rights in our Rural-Urban Migration and City Re-development Operation.

In the fiscal year ended March 31, 2016, net cash generated from operating activities was HK\$68.5 million, which consisted of operating cash inflow before changes in working capital of HK\$47.5 million, cash outflow of net interest and tax of HK\$257.0 million and working capital cash inflow of HK\$278.0 million. Working capital changes primarily reflected a negative change resulting from additions to properties under development of HK\$866.7 million, additions to land use rights of HK\$20.3 million and deposits paid for acquisition of land use rights of HK\$1,218.4 million, a decrease in trade payables, other payables and accruals of HK\$144.2 million, partially offset by positive changes resulting from a decrease in completed properties held for sale of HK\$110.8 million, a decrease in trade and other receivables of HK\$301.0 million, refund of payments from acquisition of land use rights of HK\$357.8 million and an increase in receipt in advance of HK\$1,758.0 million. The additions in properties under development were attributable to construction activities carried out for our properties development projects. The increase in receipts in advance was attributable to proceeds received from pre-sale and sale of properties.

In the fiscal year ended March 31, 2015, net cash generated from operating activities was HK\$400.7 million, which consisted of operating cash inflow before changes in working capital of HK\$443.9 million, cash outflow of net interest and tax of HK\$236.7 million and working capital cash inflow of HK\$193.5 million. Working capital changes primarily reflected a negative change resulting from additions to properties under development of HK\$1,335.9 million, additions to land use rights of HK\$172.2 million, an increase in trade and other receivables of HK\$280.4 million, partially offset by positive changes resulting from a decrease in completed properties held for sale of HK\$727.7 million, an increase in trade payables, other payables and accruals of HK\$931.9 million and refund of payments from acquisition of land use rights of HK\$288.1 million and an increase in receipt in advance of HK\$34.3 million. The additions in properties under development and an increase in trade payables, other payables and accruals were attributable to construction activities carried out for our properties development projects. The increase in receipts in advance was attributable to recognition of revenue on pre-sold properties upon completion of the construction of the units and the units were delivered to the purchasers.

In the fiscal year ended March 31, 2014, net cash used in operating activities was HK\$950.0 million, which consisted of operating cash inflow before changes in working capital of HK\$138.6 million, cash outflow of net interest and tax of HK\$149.0 million and working capital cash outflow of HK\$939.6 million. Working capital changes primarily reflected a negative change resulting from additions to properties under development of HK\$361.4 million, additions to land use rights of HK\$885.4 million, deposits paid for acquisition of land use rights of HK\$665.3 million and a decrease in receipt in advance of HK\$10.0 million, partially offset by positive changes resulting from a decrease in completed properties held for sale of HK\$115.2 million, a decrease in trade and other receivables of HK\$98.8 million, an increase in trade payables, other payables and accruals of HK\$196.7 million and refund of payments from acquisition of land use rights of HK\$571.8 million. The additions in properties under development and an increase in trade payables, other payables and accruals were attributable to construction activities carried out for our properties development projects. The decrease in receipts in advance was attributable to recognition of revenue on pre-sold properties upon completion of the construction of the units and the units were delivered to the purchasers.



### *Cash Flow Used in Investing Activities*

In the fiscal year ended March 31, 2016, net cash used in investing activities was HK\$38.7 million, which primarily consisted of cash outflow of HK\$41.3 million resulting from the purchase of property, plant and equipment, additions to investment properties under construction and cash disposed as a result of disposal of subsidiaries. In the fiscal year ended March 31, 2015, our principal investment activity is the construction of investment properties. In the fiscal year ended March 31, 2015, net cash used in investing activities was HK\$70.8 million, which primarily consisted of cash outflow of HK\$72.8 million resulting from the purchase of property, plant and equipment. In the fiscal year ended March 31, 2014, our principal investment activity is the construction of investment properties. In the fiscal year ended March 31, 2014, net cash used in investing activities was HK\$15.0 million, which primarily consisted of cash outflow of HK\$15.0 million resulting from the purchase of property, plant and equipment and additions to investment properties under construction.

### *Cash Flow (Used In)/Generated from Financing Activities*

In the fiscal year ended March 31, 2016, net cash used in financing activities was HK\$134.4 million, consisted of cash outflow of HK\$947.8 million resulting from repayment of bank and other borrowings and loan from a shareholder, partially offset by cash inflow of HK\$813.4 million resulting from proceeds from new bank and other loans of HK\$367.2 million and loan from a shareholder of HK\$350.0 million and a decrease in restricted and pledged bank deposits of HK\$96.2 million. In the fiscal year ended March 31, 2015, net cash used in financing activities was HK\$77.3 million, consisted of cash outflow of HK\$843.2 million resulting from repayment of bank and other borrowings and an increase in restricted and pledged bank deposits, partially offset by cash inflow of HK\$765.9 million resulting from proceeds from new bank and other loans and placement of convertible bonds. In the fiscal year ended March 31, 2014, net cash generated from financing activities was HK\$746.8 million, consisted of cash outflow of HK\$375.3 million resulting from repayment of bank and other borrowings and an increase in restricted and pledged bank deposits, partially offset by cash inflow of HK\$1,122.1 million resulting from proceeds from new bank and other loans and placement of convertible bonds.

### **C. Research and Development, Patents and Licenses, etc.**

Not applicable.

### **D. Trend Information**

Other than as disclosed elsewhere in this Annual Report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from April 1, 2015 to March 31, 2016 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

### **E. Off-Balance Sheet Arrangements**

On August 25, 2009, at the general meeting, the shareholders of Man Sang Holdings, Inc., the former immediate holding company, resolved that Man Sang Holdings, Inc. dissolve and liquidate, whereby Man Sang Holdings, Inc. has been succeeded by the Company. From its inception in August 1995 through the completion of the dissolution and liquidation on August 25, 2009, the Company was wholly-owned subsidiary of Man Sang Holdings, Inc. The liquidation did not result in tax for Man Sang Holdings, Inc. Such result is subject to assessment by U.S. tax authority. As the Company has succeeded Man Sang Holdings, Inc. and contractually assumed all of Man Sang Holdings, Inc.'s rights, obligations and liabilities, if the assessment differs from actual result, it may give rise to the possibility of outflow in settlement of tax by the Company. We are of the view that the likelihood of an indemnification liability arising from such dissolution at years ended March 31, 2015 and 2014 is remote. Accordingly, no accrual has been made.

The Group had financial guarantees as at March 31, 2016 amounting to HK\$1,002,205,000 (2015: HK\$377,422,000). The guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. Such guarantees will terminate upon the earlier of (i) issuance of the property ownership certificates which are generally available within six months to one year after the purchasers take possession of the relevant properties; and (ii) the satisfaction of mortgage loans by the purchasers of properties. The directors consider that in case of default in payments, the net realizable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the consolidated financial statements for the guarantees.

Except as described above, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any unconsolidated third parties. In addition, we have not entered into any derivative contracts that are indexed to our shares and classified as shareholders' equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity.

## F. Contractual Obligations

### Contractual Obligations

We are subject to various financial obligations and commitments in the normal course of operations. These contractual obligations represent known future cash payments that we are required to make and relate primarily to long-term debt, capital commitment obligations with respect to property under development, construction costs and operating leases.

As of March 31, 2016, our contractual obligations amounted to approximately HK\$5,885.6 million. The following table sets forth our contractual obligations as of March 31, 2016.

	Payments Due by Period				
	Total	Within 1 year	In the second to third years	In the fourth to fifth years	After the fifth year
			(HK\$ in thousands)		
Trade and other payables	1,266,667	1,266,667	—	—	—
Debt obligations	932,246	877,246	55,000	—	—
Convertible bonds	702,000	234,000	468,000	—	—
Interest on debt obligations	401,068	124,675	276,393	—	—
Capital commitment obligations (1)	2,530,141	2,530,141	—	—	—
Operating lease obligations	53,519	6,622	10,495	11,014	25,388
<b>Total</b>	<b>5,885,641</b>	<b>5,039,351</b>	<b>809,888</b>	<b>11,014</b>	<b>25,388</b>

- (1) Capital commitment obligations represented capital injection in respect of investment in an associate in the PRC of approximately HK\$95.2 million, investment in an associate in the PRC of approximately HK\$14.4 million and capital expenditures in relation to the construction of properties and acquisition of land contracted for but not provided in the consolidated financial statements of approximately HK\$2,420.5 million.

## Item 6. Directors, Senior Management and Employees

### Information Regarding Directors

The following table sets forth our directors. The information with respect to each director is set forth in the description of business experience of such persons below.

<u>Name</u>	<u>Position(s)</u>
Mr. Sio Kam Seng	Chairman of the Board, Chief Executive Officer and Acting Chief Financial Officer
Mr. Ho Min Sang	Director
Mr. Lai Chau Ming, Matthew	Director
Mr. Wong Gee Hang, Henry	Director
Mr. Yuen Ka Lok, Ernest	Director

## Information Regarding Executive Officers

The following table sets forth the executive officers of the Company. The information with respect to each executive officer is set forth in the description of business experience of such persons below.

<u>Name</u>	<u>Position(s)</u>
Mr. Sio Kam Seng	Chairman of the Board, Chief Executive Officer and Acting Chief Financial Officer
Mr. Lin Xianfu	President of Greater China
Mr. Lung Hei Man, Alex	Deputy Chief Financial Officer

## Business Experience of Directors and Executive Officers

Mr. SIO Kam Seng has served as Chairman of the Board and Chief Executive Officer of the Company since August 25, 2011, and Acting Chief Financial Officer since July 19, 2013. Mr. Sio served as Vice Chairman of the Board and Chief Executive Officer of the Company from March 22, 2010 until August 25, 2011. Mr. Sio has served as Chairman of the board of directors of China Metro-Rural Limited and China Metro-Rural Exchange Limited (a Hong Kong company) since January 1, 2010. He holds a Bachelor of Science degree in Construction Management from Queen's University of Brighton and a Master of Business Administration degree from the University of Wales. He is a member of the Institute of Public Accountants, a member of the Institute of Certified Management Accountants, a member of the Chartered Institute of Building, a member of the Society of Environmental Engineers and an associate of the Chartered Institute of Arbitrators. He is a Certified Management Accountant of Australia and is also a Chartered Builder of United Kingdom. He has over 20 years of experience in insurance and senior management. Prior to joining the China Metro Group, he served as area manager of HSBC Insurance Group from 1989 to 1992, assistant general manager of Sime Insurance Group from 1993 to 1995, director and chief executive officer of MSHI from 1995 to 1997. He also served as director and general manager of Accette Insurance Hong Kong from 1998 to June 2009 and has remained as its director since then.

Mr. HO Min Sang has served as our Director since August 25, 2011 and he was one of the initial investors in the Company and was involved in the Company's business development until the Company was publicly listed, given his insight into the Company's values, structure and goals. Mr. Ho has over 25 years experience in the fine jewelry business including retail, wholesale and manufacturing. Mr. Ho has served as the Chairman of CARINE FRANCOIS France since 1985. CARINE FRANCOIS is the second largest importer both in quantity and value of fine jewelry in France. As the Chairman of his group of companies, his investments covered France, Hong Kong and Mainland China. He is experienced in the areas of enterprise management and business development.

Mr. LAI Chau Ming, Matthew, has served as our Director since July 24, 2009. He has also served as a Director of MSHI since November 1996. Mr. Lai has been Sales Director of DBS Vickers (Hong Kong) Limited since July 1996. Prior to his joining DBS Vickers, Mr. Lai served from 1972 to 1996 as a Senior Manager of Sun Hung Kai Investment Company Limited, an investment company in Hong Kong. Mr. Lai has over 30 years experience in investment. He is experienced in the areas of financial management and planning.

Mr. WONG Gee Hang, Henry, has served as our Director since July 24, 2009. He has also served as a Director of MSHI since April 2005. Mr. Wong has over 30 years of experience in accounting, property investment and development and general management. Mr. Wong has also served as the Managing Director of Marspeed Limited, a consultancy firm of property development, investment and management. Mr. Wong had been a member of senior management in a Hong Kong property developer for more than 15 years. He is a fellow member of The Institute of Certified Management Accountants Australia, fellow member of The Institute of Public Accountants Australia and a full member of The Hong Kong Management Association.

Mr. YUEN Ka Lok, Ernest, has served as our Director since September 1, 2010. Mr. Yuen has been a solicitor and a partner of Messer. Yuen & Partners since 1997. He has more than 20 years of experience in litigations and commercial works. He received his Bachelor Degree in Commerce from University of Toronto in Canada. Mr. Yuen is a member of the Law Society of Hong Kong.

Mr. LIN Xianfu has served as our President of Greater China since August 1, 2014. Before joining our Company, he was appointed as the general manager in one of the industrial and logistics real estate project development companies since 2011 and He was the executive director and general manager in one of the world's leading jewelry supplying companies from 2006 to 2011. He has almost 30 years of experience in management including jewelry industry and in other industrial and logistics real estate project development. Mr. Lin is the committee member of China Jewelry Association, Vice Chairman of Zhejiang Foreigner Investment Association and Vice Chairman of Zhejiang Pearl Association. He was graduated from Guangdong Jiesi Fengjiang Secondary School in 1984.

Mr. LUNG Hei Man, Alex has served as our Deputy Chief Financial Officer since March 22, 2010. He has served as financial controller of China Metro-Rural Limited and China Metro-Rural Exchange Limited (a Hong Kong company) since January 1, 2010 (but has been finance manager of China Metro-Rural Exchange Limited since June 15, 2009). He graduated from the London School of Economics and Political Science in 1999 with a Bachelor's degree in Accounting and Finance. He has eight years of experience in auditing in Hong Kong and China with international accounting firms. Prior to joining the China Metro Group, he spent seven years with Ernst & Young and one year with BDO in auditing.

### **Family Relationships**

There are no family relationships among our directors and executive officers.

### **B. Executive Compensation**

For fiscal year ended March 31, 2016, the Company or its subsidiaries paid an aggregate of US\$0.9 million in total compensation to its executive officers and to its directors. In addition the Company or its subsidiaries set aside or accrued US\$4,600 to provide pension, retirement or similar benefits for its executive officers.

### **C. Board Practices**

#### **Board Composition**

Our board of directors consists of five members as of July 31, 2016.

We are a "controlled company" as defined in Section 801 of the NYSE MKT Company Guide. As a result, we are exempt from certain corporate governance requirements, including the requirement that a majority of the board of directors be independent.

We have determined that three of the members of the board of directors, Mr. Lai Chau Ming, Matthew, Mr. Wong Gee Hang, Henry and Mr. Yuen Ka Lok, Ernest, are "independent" within the meaning of Section 803A of the NYSE MKT Company Guide and Rule 10A-3 under the Exchange Act. We are not required to have a board of directors comprising a majority of independent directors under the NYSE MKT rules applicable to us.

#### **Committees and Attendance of the Board of Directors**

##### ***Audit Committee***

The audit committee is a separately-designated standing audit committee as defined in Section 3(a)(58)(A) of the Exchange Act. The audit committee oversees matters relating to financial reporting, internal controls, risk management and compliance and related party transactions. These responsibilities include appointing and overseeing the independent auditors, as well as reviewing their independence and evaluating their fees, reviewing financial information that is provided to our shareholders and others, reviewing with management our system of internal controls and financial reporting process and monitoring our compliance program and system. The audit committee also makes recommendations on improvements and conducts other duties as the board of directors may delegate.

The audit committee consists of Mr. Yuen Ka Lok, Ernest, as Chairman, Mr. Wong Gee Hang, Henry and Mr. Lai Chau Ming, Matthew. The audit committee operates under a written charter, which sets forth the functions and responsibilities of the committee. A copy of our audit committee charter is posted on our website at [www.chinametrorural.com](http://www.chinametrorural.com).

The audit committee held 2 meetings and acted by unanimous written consent on 6 occasions during the fiscal year ended March 31, 2016 and 2 meetings and acted by unanimous written consent on 2 occasions during the fiscal year ended March 31, 2015.

The board of directors has, in its reasonable judgment, (1) determined that all members of the audit committee are financially literate, (2) determined that Mr. Wong Gee Hang, Henry is qualified as an "audit committee financial expert", within the meaning of SEC regulations, that he has accounting and related financial management expertise within the meaning of the listing standards of the NYSE MKT and Rule 10A-3 under the Exchange Act, and (3) determined that all audit committee members satisfy the definition of "independent" as established in the NYSE MKT corporate governance listing standards.

With respect to the fiscal year ended March 31, 2016, the audit committee has:

- reviewed and discussed with our independent registered public accounting firm and with management the audited consolidated financial statements for the year ended March 31, 2016;
- discussed with our independent registered public accounting firm the matters relevant with us in the Statement on Auditing Standards;
- received the written disclosures and the letter from our independent registered public accounting firm; and
- discussed with our independent registered public accounting firm the independence of our independent registered public accounting firm.

Based on the audit committee's review and discussions noted above, the audit committee recommended to the board of directors that audited consolidated financial statements for the year ended March 31, 2016 be included in our Annual Report on Form 20-F for the year ended March 31, 2016.

### ***Compensation Committee***

The compensation committee consists of Mr. Lai Chau Ming, Matthew, as Chairman, Mr. Wong Gee Hang, Henry and Mr. Yuen Ka Lok, Ernest.

The compensation committee deliberates and stipulates the compensation policy for our company. Each year the compensation committee directs our company, through an internal committee consisting of the Chief Financial Officer, the executive directors and Manager of Human Resources and Administration, to prepare a compensation philosophy and strategy statement for the compensation of the executives and a proposed executive compensation framework for the year. When establishing the proposed compensation framework, in keeping with our goal of attracting, motivating, and retaining executives who will contribute to our long-term success and an increase in the value of our shares, the internal committee undertakes the review of comparative compensation offered by peer companies that may compete with our company for executive talent. The peer group we used for compensation comparison and analysis purposes includes companies with workforce sizes, revenues, assets, and market values within a certain range above and below our levels. The internal committee periodically reviews the comparative compensation offered by the peer group and makes changes as appropriate to reflect changes in the market and our industry. The peer group is not necessarily limited to a particular industry as we believe we compete for executive talent across a wider group of entities.

During the fiscal year ended March 31, 2016, the compensation committee acted by unanimous written consent on 2 occasions.

The board of directors has determined that each member of the compensation committee satisfies the definition of "independent" as established in the NYSE MKT corporate governance listing standards.

The compensation committee has a compensation committee charter which is posted on our website at [www.chinametrorural.com](http://www.chinametrorural.com).

### ***Nominating Committee***

On August 25, 2011 the Company established a nominating committee with the approval of the Board of Directors. Mr. Wong Gee Hang, Henry is the Chairman of the nominating committee. Mr. Lai Chau Ming, Matthew and Mr. Yuen Ka Lok, Ernest, are the members of the Committee.

During the fiscal year ended March 31, 2016, the nominating committee acted by unanimous written consent on 1 occasion.

The board of directors has determined that each member of the nominating committee satisfies the definition of “independent” as established in the NYSE MKT corporate governance listing standards.

A current copy of our nomination charter is posted on our website at [www.chinametro rural.com](http://www.chinametro rural.com). We do not expect to hold an annual meeting if the Privatization is consummated prior to March 31, 2017. If the Privatization is not consummated prior to March 31, 2017, the nominating committee will consider recommendations from shareholders holding more than 5% of our outstanding shares for candidates to the board of directors. The name of any recommended candidate for being director, together with a brief biographical sketch, a document indicating the candidate’s willingness to serve, if elected, and evidence of the nominating shareholder’s ownership of our shares should be sent to the attention of the Secretary of the Company not less than 120 days nor more than 180 days before the first anniversary of the mailing date of our proxy statement for our 2016 annual meeting, which mailing date will be announced in a Report on Form 6-K if the Privatization is not consummated prior to March 31, 2017.

### ***Attendance of the Board of Directors***

During the year ended March 31, 2016, our board of directors held 2 meetings and acted by unanimous written consent on 12 occasions.

2 of our directors attended our 2015 annual meeting of shareholders held at Suite 2204, 22/F, Sun Life Tower, The Gateway, 15 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

### **Duties of Directors**

Under British Virgin Islands law, our directors have a duty of loyalty and must act honestly and in good faith and in our best interests. Our directors also have a duty to exercise the care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duties to our company, our directors must ensure compliance with our Memorandum and Articles of Association and the class rights vested thereunder in the holders of the shares. A shareholder may in certain circumstances have rights to damages if a duty owed by the directors is breached.

Our board of directors has all the powers necessary for managing, and for directing and supervising, our business affairs. The functions and powers of our board of directors include, among others:

- convening shareholders’ meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the terms of office of the officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares in our company, including the registering of such shares in our share register.

### **Employment Agreements**

We do not have employment agreements with any of our directors.

### **D. Employees**

As of March 31, 2016, the Company and all of its direct and indirect subsidiaries had a total of 682 employees. The following table sets forth a breakdown of our management and employees by function as of March 31, 2016.

	<u>Hong Kong</u>	<u>PRC</u>	<u>Total</u>
Senior management	3	14	17
Marketing and sales	—	203	203
Purchasing	—	—	—
Finance and accounting	1	49	50
Legal and Compliance	1	10	11
Construction	—	137	137
Human resources and administration	1	149	150
Property management	—	106	106
Information technology	—	8	8
Total	<u>6</u>	<u>676</u>	<u>682</u>

We believe that we maintain a good working relationship with our employees, and we have not experienced any significant labor disputes or any difficulty in recruiting staff for our operations. Our employees currently are not party to any collective bargaining agreement, and no labor union has been organized to represent our employees.

We are required under PRC law to make defined contributions to the employee benefit plans including housing funds, pension, work-related injury benefits, maternity insurance, medical and unemployment benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the respective local government authorities where we operate our businesses from time to time. Members of the retirement plan are entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date.

As of March 31, 2016, 6 of our management and employees were located in Hong Kong. We operate a defined contribution Mandatory Provident Fund retirement benefits scheme, or the MPF Scheme, as required under the Mandatory Provident Fund Schemes Ordinance, for our eligible employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries. The assets of the MPF Scheme are held separately from our assets in an independently administered fund, and our employer contributions vest fully with the employees when contributed into the MPF Scheme.

The total amount of contributions we made to employee benefit plans in fiscal years 2014, 2015 and 2016 was approximately US\$418,000 (or HK\$3,261,000), US\$553,000 (or HK\$4,311,000) and US\$587,000 (or HK\$4,578,000) respectively.

## E. Share Ownership

Please see Item 7.A.

## Item 7. Major Shareholders and Related Party Transactions

### SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

#### Ordinary Shares

The following table sets forth information with respect to the beneficial ownership of our ordinary shares, by (1) each of the Company's shareholders who is a beneficial owner of more than 5% of the Company's ordinary shares, (2) each of the Company's directors and executive officers, individually, and (3) all of the Company's executive officers and directors, as a group, as of July 1, 2016.

<u>Name and Address of Beneficial Owner (1)</u>	<u>Amount and Nature of Beneficial Ownership (2)</u>	<u>Percent of Class</u>
Kind United Holdings Limited (3)(4)	37,338,104	50.77%
Willis Plus Limited (3)(4)	61,499,028	45.54%
Ampleton Developments Limited	5,744,323	7.81%
Luck Merit Holdings Limited	5,744,323	7.81%
Zhong Ying Limited (5)	5,900,000	8.02%
Mr. Cheng Chung Hing, Ricky (3)	116,119,915	79.22%
Mr. Leung Moon Lam (4)	37,338,104	50.77%
Mr. Lin Xianfu	11,538,459	13.56%
Mr. Sio Kam Seng	—	—
Mr. Ho Min Sang	5,222,661	7.10%
Mr. Su Shaobin (5)	5,900,000	8.02%
Mr. Lai Chau Ming, Matthew	—	—
Mr. Wong Gee Hang, Henry	—	—
Mr. Yuen Ka Lok, Ernest	—	—
Mr. Lung Hei Man, Alex	—	—
All executive officers and directors as a group (7 persons)	16,761,120	19.70%

- (1) Address for each person is c/o China Metro-Rural Holdings Limited, Suite 2204, 22/F, Sun Life Tower, The Gateway, 15 Canton Road, Tsimshatsui, Kowloon, Hong Kong.
- (2) Represents our ordinary shares held. As of July 1, 2016, we had 73,543,782 ordinary shares outstanding and none of these individuals or entities had the right to acquire beneficial ownership of additional securities, as defined in Rule 13d-3(a) of the Exchange Act, within 60 days except as indicated in individual footnotes. This amount does not include securities that may be acquired under options or other rights more than 60 days after July 1, 2016. This disclosure is made pursuant to certain rules and regulations promulgated by the SEC and the number of shares shown as beneficially owned by any person may not be deemed to be beneficially owned for other purposes. Unless otherwise indicated in these footnotes, each named individual has sole voting and dispositive power with respect to such ordinary shares, subject to community property laws, where applicable.
- (3) Mr. Cheng Chung Hing, Ricky, owns approximately 50.1% of an entity that holds approximately 72.3% of the outstanding shares of Kind United Holdings Limited. He also owns approximately 16.7% of an entity that holds approximately 27.7% of the outstanding shares of Kind United Holdings Limited. As a result, Mr. Cheng Chung Hing, Ricky, may be deemed to be the beneficial owner of 37,338,104 ordinary shares of the Company issued to Kind United Holdings Limited upon completion of the Merger on March 22, 2010. Mr. Cheng owns 100% of the outstanding shares of Willis Plus Limited. As a result, Mr. Cheng may be deemed to be the beneficial owner of the 61,499,028 ordinary shares of the Company beneficially owned by Willis Plus Limited which consists of 55,499,028 ordinary shares issuable pursuant to convertible bonds convertible within 60 days of July 1, 2016 and 6,000,000 ordinary shares issuable pursuant to warrants exercisable within 60 days of July 1, 2016. Mr. Cheng owns US\$15 million of our 10% convertible bonds due 2016 ("2016 Bonds"). As a result, Mr. Cheng Chung Hing may be deemed to be the beneficial owner of 11,538,460 ordinary shares issuable pursuant to 2016 Bonds convertible within 60 days of July 1, 2016. Mr. Cheng Chung Hing, Ricky also personally owns 5,744,323 ordinary shares since December 2013.
- (4) Mr. Leung Moon Lam owns approximately 61.2% of an entity that holds approximately 27.7% of the outstanding shares of Kind United Holdings Limited. As a result, Mr. Leung Moon Lam may be deemed to be the beneficial owner of 37,338,104 ordinary shares of the Company issued to Kind United Holdings Limited upon completion of the Merger on March 22, 2010.
- (5) Zhong Ying Limited holds directly 5,900,000 ordinary shares of the Company. Mr. Su Shaobin, owns 100% of the outstanding shares of Zhong Ying Limited. As a result, Mr. Su Shaobin may be deemed to be the beneficial owners and to share the voting and dispositive power of the 5,900,000 ordinary shares of the Company beneficially owned by Zhong Ying Limited.

### Preferred Shares

- The following table sets forth information with respect to beneficial ownership of our preferred shares as of July 1, 2016, by
- (1) each of our shareholders who is known to be a beneficial owner of more than 5% of our preferred shares, (2) each of our directors and executive officers, individually, and (3) all of our executive officers and directors as a group.

<u>Name and Address of Beneficial Owner (1)</u>	<u>Amount and Nature of Beneficial Ownership (2)</u>	<u>Percent of Class</u>
Cafoong Limited (3)	100,000	100%
Mr. Cheng Chung Hing, Ricky (3)	100,000	100%
Mr. Cheng Tai Po	100,000	100%
Mr. Sio Kam Seng	—	—
Mr. Ho Min Sang	—	—
Mr. Lai Chau Ming, Matthew	—	—
Mr. Wong Gee Hang, Henry	—	—
Mr. Yuen Ka Lok, Ernest	—	—
Mr. Lin Xianfu	—	—
Mr. Lung Hei Man, Alex	—	—
All executive officers and directors as a group (7 persons)	100,000	100%

- (1) Address for each person is c/o China Metro-Rural Holdings Limited, Suite 2204, 22/F, Sun Life Tower, The Gateway, 15 Canton Road, Tsimshatsui, Kowloon, Hong Kong.
- (2) Represents our preferred shares held. As of July 1, 2016, we had 100,000 preferred shares outstanding and none of these individuals or entities had the right to acquire beneficial ownership of additional securities, as defined in Rule 13d-3(a) of the Exchange Act, within 60 days. This amount does not include securities that may be acquired under options or other rights more than 60 days after July 1, 2016. This disclosure is made pursuant to certain rules and regulations promulgated by the SEC and the number of shares shown as beneficially owned by any person may not be deemed to be beneficially owned for other purposes. Unless otherwise indicated in these footnotes, each named individual has sole voting and dispositive power with respect to such preferred shares, subject to community property laws, where applicable.
- (3) Mr. Cheng Chung Hing, Ricky, and Mr. Cheng Tai Po own 60% and 40%, respectively, of all issued and outstanding shares of, and are directors of, Cafoong Limited and, accordingly, are deemed to be the beneficial owners of our preferred shares owned by Cafoong Limited. The preferred shares were issued to Cafoong Limited on August 25, 2009.



Holders of our ordinary shares are entitled to one vote for each share held. The holders of the 100,000 of our preferred shares outstanding are, as a class, entitled to the number of votes as shall constitute 3,191,225 of our ordinary shares. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of the Company.

Certain agreements with Cafoong Limited provide Cafoong Limited with certain pre-emptive rights to purchase, upon the issuance of our ordinary shares in certain circumstances to third parties in order to allow Cafoong Limited to maintain its percentage ownership interest of our outstanding ordinary shares.

## 7.B CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Our board of directors is responsible for reviewing relationships and transactions in which we and our directors and executive officers or their immediate family members are participants to determine whether such related persons have a direct or indirect material interest. We review questionnaires provided by the directors and executive officers at the end of each fiscal year confirming the nature of their related transactions with us, if any, during the year. Our board of directors is primarily responsible for the development and implementation of processes and controls to obtain information from the directors and executive officers with respect to related person transactions and for then determining, based on the facts and circumstances, whether a related person has a direct or indirect material interest in the transaction. Our board of directors reviews and approves or ratifies any related person transaction that is required to be disclosed. In the course of its review and approval or ratification of a disclosable related person transaction, the board of directors considers:

- the nature of the related person's interest in the transaction;
- the material terms of the transaction, including, without limitation, the amount and type of transaction;
- the importance of the transaction to the related person;
- the importance of the transaction to us;
- whether the transaction would impair the judgment of a director or executive officer to act in our best interest; and
- any other matters the board of directors deems appropriate.

Any member of the board of directors who is a related person with respect to a transaction under review may not participate in the deliberations or vote for approval or ratification of the transaction, provided, however, that this director may be counted in determining the presence of a quorum at a meeting of the board of directors that considers the transaction.

No material related person transactions have occurred since the beginning of fiscal year 2010 up to and including the date of this Annual Report or are currently proposed, other than as set forth in the discussion of the Merger and as set forth below:

On August 15, 2012 we issued US\$60,000,000 principal amount, 14 per cent. guaranteed secured convertible bonds (the "Bonds") due 2017 and 6,000,000 warrants to purchase ordinary shares (the "CB Warrants") in a private placement to our affiliate Willis Plus Limited (the "Investor"). Commencing August 15, 2013, the Bonds are convertible into our ordinary shares at an initial conversion price of US\$1.0811 per share and the CB Warrants are exercisable to purchase ordinary shares at an initial exercise price of \$1.2973 per share, respectively. The Investor is a special purpose entity owned by the Majority Shareholders (as defined below). The Investor borrowed the funds used to purchase the Bonds from PA Universal Opportunity VII Limited ("PAG"). The use of proceeds is intended for project development costs for several property development projects in mainland China. The Bonds are jointly and severally guaranteed by the non-PRC subsidiaries of the Company (the "Subsidiary Guarantors") and secured by share pledges over the issued share capital of the Subsidiary Guarantors that are owned by the Company.

Prior to the issuance of the Bonds and CB Warrants, we originally sought the investment directly from PAG. In the negotiation process, PAG demanded the personal guarantee from our majority shareholders, including, Mr. Cheng Chung Hing ("Mr. Cheng") and Mr. Leung Moon Lam ("Mr. Leung", together with Mr. Cheng, the "Majority Shareholders") and sought collateral from them. As a result of that dialogue, the Majority Shareholders sought consideration from PAG and us in connection with the guarantee and security requested by PAG. The net result was that PAG would make a US\$60,000,000 loan to the Investor and the Investor would use the loan proceeds to purchase the Bonds and CB Warrants. Under this arrangement, PAG is entitled to receive 20% of any gross return realized by the Investor on the Bonds and CB Warrants, net of certain permitted expenses, that is in excess of 21% per annum internal rate of return payable on the PAG bond.

The Investor is categorized as our affiliate since both shareholders of the Investor, Mr. Cheng and Mr. Leung are together deemed to be our largest shareholder, by their deemed beneficial ownership of over 50% of our issued and outstanding ordinary shares through Kind United Holdings Limited. Accordingly, the issuance of the Bonds and CB Warrants each constitutes a transaction with our affiliate (the "Affiliate Transaction") which is subject to, amongst other things, the review and approval of our board of the Company, and our Audit Committee.

Our board and our Audit Committee are of the opinion that the Affiliate Transaction is in our best interests and our shareholders as a whole and our board and our Audit Committee each approved the Affiliate Transaction on July 17, 2012.

The Company filed a Form 6-K on August 3, 2012 to report its execution of the subscription agreement and related documents in connection with the proposed issuance to the Investor of the Bonds and the CB Warrants; and the loan from PAG to the Investor.

On October 15, 2012, we, through our subsidiary, entered into an agreement for the disposition of 100% of our equity interest in China Focus City (H.K.) Holdings Limited and 75% of our equity interest in Qiqihar China Focus City Holdings (Group) Co. Ltd. (“Qiqihar CFC”) to Run Xing Investments Limited and Honour Noble Holdings Limited (collectively the “Purchasers”) (collectively the “Sale”). Pursuant to the agreement, we, through our subsidiaries, are to receive considerations of RMB150,000,000 plus an amount of RMB85,595,967, representing certain post-tax profits arising from Qiqihar CFC prior to the Sale, and interest on the pre-tax balance of such amount calculated from July 28, 2012 through the date of payment. In addition, the Purchasers are to enter into a legally binding guaranty with respect to our remaining 25% interest in Qiqihar CFC that we will receive (X) a pre-tax 21% fixed annual return of our remaining 25% interest in Qiqihar CFC, (equal to RMB10,500,000) beginning October 15, 2013 and (Y) RMB50,000,000 on or before October 14, 2013.

The Purchasers shall have the right to purchase the remaining 25% interest in Qiqihar CFC at any time for RMB50,000,000 (plus any amounts due and payable under (X) and (Y) above). Finally, in the event that the Purchasers intend to sell its interests in Qiqihar CFC, they must first purchase our 25% interest in Qiqihar CFC. The payments of the amounts described above shall be guaranteed by the Purchasers and Qiqihar CFC, as well as Mr. Su Shaobin, who was one of our directors. The disposition was approved by our audit committee and our board of directors on October 12, 2012. The remaining 25% interest in Qiqihar CFC has been accounted for as a loan receivable due to its nature in accordance with IFRS.

On December 20, 2013, January 27, 2014 and March 20, 2014, the Company issued an aggregate amount of US\$30,000,000, 10 per cent convertible bonds (the “2016 Bonds” or “2016 CBs”) due 2016 convertible into ordinary shares of the Company in a private placement, where US\$15,000,000 of which was issued to one of its major shareholders, Mr. Cheng Chung Hing and the remainder to certain independent third parties and an existing shareholder. Interest is payable on the principal amount of the 2016 Bonds semi-annually.

All (but not less than all) of the principal amounts of the 2016 CBs of each of the investors will be convertible into ordinary shares of the Company at an initial conversion price per Ordinary Share equal to US\$1.30. The 2016 CBs are convertible during their entire tenure. Based on such initial conversion price, 23,076,919 of the Company’s ordinary shares are issuable upon conversion of the 2016 CBs.

Under the terms of the 2016 CBs, the Investors has the right to put back the 2016 CBs to the Company after 18 months of the date of issue of the 2016 CBs at an amount equal to 100 percent of the principal amounts outstanding of the 2016 CBs to be repaid with accrued but unpaid interest. The 2016 CBs will have limited anti-dilution protection, which will include adjustments for consolidation, subdivision or reclassification.

The board and the Audit Committee of the Company are of the opinion that the issuance of the 2016 CBs is in the best interests of the Company and its shareholders as a whole and the board and Audit Committee each approved the issuance of the 2016 CBs on December 9, 2013.

On September 19, 2014, the Company entered into an HK\$30,000,000 loan agreement with one of its major shareholders, Mr. Cheng Chung Hing, Ricky, under which Mr. Cheng Chung Hing, Ricky extended an amount of HK\$30,000,000 loan to the Company. The term of this loan is from September 19, 2014 to September 18, 2016. This loan was obtained by the Company in order to repay maturing loans and bears an interest rate of 16% per annum with interest payable semi-annually.

On September 22, 2014, the Company entered into an HK\$35,000,000 loan agreement with one of its major shareholders, Mr. Cheng Chung Hing, Ricky, under which Mr. Cheng Chung Hing, Ricky extended an amount of HK\$35,000,000 loan to the Company. The term of this loan is from September 22, 2014 to September 21, 2016. This loan was obtained by the Company in order to repay maturing loans and bears an interest rate of 16% per annum with interest payable semi-annually.

On April 1, 2015, the Company entered into an HK\$45,000,000 loan agreement with one of its major shareholders, Mr. Cheng Chung Hing, Ricky, under which Mr. Cheng Chung Hing, Ricky extended an amount of HK\$45,000,000 loan to the Company. The term of this loan is from April 1, 2015 to March 31, 2017. This loan was obtained by the Company in order to repay maturing loans and bears an interest rate of 16% per annum with interest payable semi-annually.

On August 4, 2015, the Company entered into an HK\$55,000,000 loan agreement with one of its major shareholders, Mr. Cheng Chung Hing, Ricky, under which Mr. Cheng Chung Hing, Ricky extended an amount of HK\$55,000,000 loan to the Company. The term of this loan is from August 4, 2015 to August 3, 2017. This loan was obtained by the Company in order to repay loan interest and bears an interest rate of 15% per annum with interest payable semi-annually.

On November 3, 2015, one of our subsidiaries, China Glorious City Holdings Limited, entered into an HK\$200,000,000 loan agreement with one of its major shareholders, Mr. Cheng Chung Hing, Ricky, under which Mr. Cheng Chung Hing, Ricky extended an amount of HK\$200,000,000 loan to China Glorious City Holdings Limited. The term of this loan is from November 3, 2015 to November 9, 2015. This loan bore an interest rate of 6% per annum with interest payable upon repayment and was fully repaid.

On January 20, 2016, the Company entered into an HK\$50,000,000 loan agreement with one of its major shareholders, Mr. Cheng Chung Hing, Ricky, under which Mr. Cheng Chung Hing, Ricky extended an amount of HK\$50,000,000 loan to the Company. The term of this loan is from January 20, 2016 to January 19, 2017. This loan was obtained by the Company in order to repay loan interest and bears an interest rate of 15% per annum with interest payable semi-annually.

The terms of all six HK\$ loan agreements (the “Loan Affiliate Transactions”) were reviewed by the Company’s audit committee which determined that the Loan Affiliate Transactions were in the best interests of the Company and its shareholders as a whole and the Company’s board and the Audit Committee each approved the Loan Affiliate Transactions on September 19, 2014, April 1, 2015, August 4, 2015, November 3, 2015 and January 20, 2016.

In addition to their investments in the Company, Mr. Cheng Chung Hing, Ricky owns all of the outstanding shares of Accurate Gain Developments Limited, and his brother, Mr. Cheng Tai Po, owns all of the outstanding shares of Proficient Success Limited. As of March 31, 2016, Accurate Gain Developments Limited, Proficient Success Limited, Mr. Cheng Chung Hing, Ricky, and Mr. Cheng Tai Po owned an aggregate of 2,451,116,976 of the 7,999,321,999 outstanding shares of China South City Holdings Limited, or China South City. China South City is a leading developer and operator of large-scale integrated logistics and trade centers in China, providing a comprehensive trading platform for domestic and international wholesale suppliers, buyers, manufacturers, distributors and end-users of products from raw materials to finished products. It sells and leases well-designed, high quality trade center units for businesses to display and sell their products. China South City also provides their clients with one-stop convenient supply chain solutions that include a full range of facilities and services such as offices, residential, conference and exhibition facilities, hotels and restaurants, warehousing and on-site logistics services, property management, e-commerce, banking, on-site government services in a bid to offer. Mr. Cheng Chung Hing, Ricky, is also the Co-Founder, Co-Chairman and Executive Director of China South City. In addition, Mr. Leung Moon Lam, is a Co-Founder and Executive Director of China South City.

#### **Differences between China Northeast Logistics Cities and China South City**

We believe China Northeast Logistics Cities and China South City can be differentiated for a number of reasons. First, China South City is located in Shenzhen, Guangdong Province, Nanchang, Jiangxi Province, Nanning, Guangxi Zhuang Autonomous Region, Xian, Shaanxi Province, Harbin, Heilongjiang Province and Zhengzhou, Henan Province, Hefei, Anhui Province, Chongqing Municipality and attracts clientele from these regions. In addition, China South City and China Northeast Logistics Cities were established at different times with a focus on different industry sectors. The products offered by, and the occupants of, China Northeast Logistics Cities are distinctively different from those of China South City. Also, the PRC subsidiaries of China South City has entered into master agreements and/or project agreements with local government in Shenzhen, Guangdong Province, Nanchang, Jiangxi Province, Nanning, Guangxi Zhuang Autonomous Region, Xian, Shaanxi Province, Harbin, Heilongjiang Province and Zhengzhou, Henan Province, Hefei, Anhui Province and Chongqing Municipality that set out each party’s commitments and expectations and a proposed framework for these integrated logistics and trade center developments. On the other hand, our PRC subsidiaries have not entered into a master plan or agreement with government agencies, which gives China Northeast Logistics Cities more flexibility.

## Contracts with China South City

Mr. Cheng Chung Hing, Ricky, and Mr. Leung Moon Lam are each parties to a deed of option and undertaking with China South City. Pursuant to the deed of option and undertaking of which we are not a party of, each of Mr. Cheng Chung Hing, Ricky, and Mr. Leung Moon Lam has granted to China South City an option to acquire all their respective effective interests in China Northeast Logistics Cities at any time until September 30, 2014 or two years after the completion of the development of China Northeast Logistics Cities (whichever is later) so long as: (i) for Mr. Cheng Chung Hing, Ricky, he remains a controlling shareholder of China South City or a director of China South City; or (ii) for Mr. Leung Moon Lam, he remains a director of China South City. China South City also has the right to buy all the respective interests held by Mr. Cheng Chung Hing, Ricky, and/or Mr. Leung Moon Lam in China Northeast Logistics Cities before they are offered to any other third party. The price payable by China South City for such interests shall be determined with reference to the fair market value of such interests as determined by an internationally recognized valuer.

If China South City decides, after due consideration, not to exercise the option but wishes to develop China South City's business operations in Liaoning Province, which may result in competition between China South City and China Northeast Logistics Cities, China South City shall be entitled to, at any time within the above option period, require Mr. Cheng Chung Hing, Ricky (so long as he remains a controlling shareholder of China South City or a director of China South City), and/or Mr. Leung Moon Lam (so long as he remains a director of China South City) to dispose of all their respective interests in China Northeast Logistics Cities to independent third parties as soon as practicable and in any event, prior to the occurrence of any competition between China South City and China Northeast Logistics Cities.

In connection with the Merger, Mr. Cheng Chung Hing, Ricky and Mr. Leung Moon Lam sought confirmation from China South City as to whether China South City would opt to exercise its rights of first offer granted to it by both Mr. Cheng and Mr. Leung to purchase all their respective effective interests in China Northeast Logistics Cities. Following that request, China South City held an extraordinary general meeting in which its independent shareholders approved, confirmed and ratified its non-exercise of the rights of first offer granted to it by each of Mr. Cheng and Mr. Leung in relation to the Merger. While the rights of first offer no longer exist with respect to the completed Merger, the option to exercise the rights of first offer remains in effect with respect to subsequent transfers until September 30, 2014 or two years after the completion of the development of China Northeast Logistics Cities (whichever is later).

On June 1, 2012, Shenzhen Northeast Logistics City Co., Ltd., an indirect wholly-owned subsidiary of ours, entered into a rental agreement with China South International Industrial Materials City (Shenzhen) Co., Ltd., a wholly-owned subsidiary of China South City Holdings Limited, pursuant to which Shenzhen Northeast Logistics City Co., Ltd. agreed to lease from China South International Industrial Materials City (Shenzhen) Co., Ltd. an office premises located at 21/F, Global Logistics Center, Pinghu, Shenzhen, the PRC owned by China South International Industrial Materials City (Shenzhen) Co., Ltd. for a term of two years from June 1, 2012 to May 31, 2014 with monthly rental and management fee of RMB22,563 per month and RMB4,514 per month, respectively. Shenzhen Northeast Logistics City Co., Ltd. is entitled to a rent-free period from June 1, 2012 to August 31, 2012. Shenzhen Northeast Logistics City Co., Ltd. no longer leased 21/F, Global Logistics Center after August 1, 2014. On August 5, 2014, Shenzhen Northeast Logistics City Co., Ltd. entered into a rental agreement with China South International Industrial Materials City (Shenzhen) Co., Ltd. pursuant to which Shenzhen Northeast Logistics City Co., Ltd. agreed to lease from China South International Industrial Materials City (Shenzhen) Co., Ltd. an office premises located at 26/F, Global Logistics Center, Pinghu, Shenzhen, the PRC for a term of three years from August 1, 2014 to July 31, 2017 with monthly rental and management fee of RMB66,751 per month and RMB11,867 per month, respectively. Shenzhen Northeast Logistics City Co., Ltd. is entitled to a rent-free period from August 1, 2014 to October 30, 2014. Shenzhen Northeast Logistics City Co., Ltd. no longer leased 26/F, Global Logistics Center after April 15, 2016. During the fiscal year ended March 31, 2016, Shenzhen Northeast Logistics City Co., Ltd. paid and payable to China South International Industrial Materials City (Shenzhen) Co., Ltd. approximately HK\$1,079,000 (RMB881,000) (inclusive of rental rates and management fees, an amount less than the threshold of our related party transaction policy) pursuant to the terms of this rental agreement.

On November 14, 2013, China Dezhou Northeast, an indirect non wholly-owned subsidiary of ours, entered into a design contract with Shenzhen Huanuo Architecture Planning and Design Institute Company Limited, a wholly-owned subsidiary of China South City Holdings Limited, pursuant to which Shenzhen Huanuo Architecture Planning and Design Institute Company Limited agreed to provide various design services, including facade design proposals and interior design of certain trade centers and administrative offices of Northeast Logistics City—Dezhou, with a total contract sum of RMB890,000, which was fully settled.

## **Item 8. Financial Information**

### **A. Consolidated Statements and Other Information**

Please see Item 17 “Financial Statements” for our audited consolidated financial statements filed as a part of this Annual Report.

#### **Legal Proceedings**

Our subsidiary China Tieling Northeast is involved in a PRC court case brought about by a contractor, Kaiyuan Wei Min Construction Engineering Co., Ltd. (“Wei Min”), regarding a disputed construction contract where Wai Min is claiming damages of approximately RMB9,882,355. The litigation is still ongoing and there has been no material progress as at date of this report. Although a judgement is yet to be issued by local PRC court, we are of the opinion that the full provision for the claim shall be made and accordingly, the amount was fully provided and has been charged to the consolidated income statement for the fiscal year ended March 31, 2015.

Our subsidiary China Tieling Northeast is involved in a PRC court case brought about by a contractor, Tieling Xin Hai Construction Engineering Co., Ltd. (“Xin Hai”), regarding a disputed construction contract where Xin Hai is claiming damages of approximately RMB1,174,156. The amount was fully provided and has been charged to the consolidated income statement for the fiscal year ended March 31, 2015. During the current fiscal year, a judgement was issued by the PRC court in favour of Xin Hai and the provision made in the prior year is sufficient to cover the damages awarded to Xin Hai by the PRC court therefore no additional provision is required. The Group has yet to settle the claim with Xin Hai and the balance remained outstanding as at March 31, 2016.

We have filed a Hong Kong court case (Action No. 755 of 2015) against Run Xing Investments Limited (“Run Xing”), Honour Noble Holdings Limited (“Honour Noble”) and Mr. Su Shaobin. In the case we are making claims for various returns and interest receivables with aggregate sum of RMB42,935,132 from Run Xing and Honour Noble while Mr. Su Shaobin is a guarantor for the aforesaid sum. A judgement from the Hong Kong Court of First Instance was issued in our favour and demanded Mr. Su Shaobin to pay the aforesaid sum. During the current fiscal year, Mr. Su has lodged a petition to the Hong Kong court and we are currently in the progress of preparing for the hearing. We are of the opinion that the recoverability of the aforesaid sum is in doubt and full provision for the aforesaid sum and a loan receivable of RMB50,000,000 should be made and accordingly, the amounts were fully provided and has been charged to the consolidated income statement during the fiscal year ended March 31, 2015.

As of March 31, 2016, except for the foregoing, we did not have any litigation, arbitration or claim of material importance, and the Directors were not aware of any pending or threatened litigation, arbitration or claim of material importance against us, China Metro or any of our subsidiaries.

#### **Dividend Policy**

On June 28, 2007, MSHI declared a return of capital in the amount of US\$1,595,642 (US\$0.25 per share of common stock) to its shareholders of record on July 24, 2007. MSHI did not pay cash dividends in fiscal years 2007 and 2008. Any future determination to pay cash dividends will be at the discretion of our board of directors and will depend upon our financial condition, operating results, capital requirements, any applicable contractual restrictions and such other factors as our board of directors deems relevant. Cash dividends, if any, on the ordinary shares of the Company will be paid in U.S. dollars.

We are a holding company incorporated in the British Virgin Islands, and will rely principally on dividends, loans or advances paid to us by our subsidiaries incorporated in China for our cash requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders, service any debt we may incur and pay our operating expenses. PRC law restricts the ability of our subsidiaries incorporated in the PRC to transfer funds to us in the form of cash dividends, loans or advances. PRC regulations currently permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations.

On July 28, 2010, the Company announced its decision to distribute its entire equity interest in Man Sang International Limited, or MSIL, to the Company’s shareholders, or the Distribution.

Any dividends paid by a PRC subsidiary to an immediate holding company that is incorporated in Hong Kong will be subject to a withholding tax at the rate of 5%, provided the Hong Kong incorporated subsidiary is not considered to be a PRC tax resident enterprise.

If we are considered a PRC tax resident enterprise for tax purposes, any dividends we pay to our overseas shareholders may be regarded as China-sourced income and as a result may be subject to PRC withholding tax at a rate of up to 10%.

## **B. Significant Changes**

After the end of the fiscal year ended March 31, 2016, on May 20, 2016, the Company announced plans to effectuate the Privatization. The Company intends to effectuate the Privatization through a merger with an indirect wholly-owned subsidiary of the Company. Upon the terms and subject to the conditions set forth in an Agreement and Plan of Merger to which the Company is a party, holders of the Company's ordinary shares—other than certain specified affiliates, other holders and holders who properly perfect applicable dissenters' rights—will receive US\$1.03 per share in cash, without interest, as a result of the merger. Following the Privatization, the Company plans to terminate the Company's public reporting obligations (and associated costs) under the Exchange Act and to delist from the NYSE MKT.

Except as disclosed elsewhere in this Annual Report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this Annual Report.

**Item 9. The Offer and Listing.****Market Price**

Our ordinary shares have been listed on the NYSE MKT under the symbol “CNR” since April 20, 2010. Our preferred shares are not listed.

The following table sets forth, for the periods indicated, the high and low share prices (in U.S.\$) for our ordinary shares from April 1, 2012 to June 30, 2016 on the NYSE MKT.

	<u>High</u>	<u>Low</u>
<b>Yearly Highs and Lows for the Year Ended March 31,</b>		
2016	1.55	0.85
2015	1.12	0.57
2014	2.88	0.90
2013	1.56	0.50
2012	5.65	0.72
<b>Quarterly Highs and Lows</b>		
2016		
First Quarter (April-June 2015)	1.55	0.85
Second Quarter (July-September 2015)	1.20	0.88
Third Quarter (October-December 2015)	1.10	0.85
Fourth Quarter (January-March 2016)	1.04	0.85
2015		
First Quarter (April-June 2014)	1.06	0.72
Second Quarter (July-September 2014)	1.12	0.88
Third Quarter (October-December 2014)	0.99	0.60
Fourth Quarter (January-March 2015)	0.98	0.57
<b>Monthly Highs and Lows</b>		
January 2016	0.98	0.85
February 2016	1.04	0.85
March 2016	0.98	0.85
April 2016	1.05	0.86
May 2016	1.03	0.86
June 2016	1.06	0.95

**Item 10. Additional Information.****A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

We are a British Virgin Islands company and our affairs are governed by our Memorandum and Articles of Association, as amended and restated from time to time, and The BVI Business Companies Act, 2004.

The following statements are summaries of our share capital structure and of the more important rights and privileges of shareholders conferred by our Memorandum and Articles of Association and The BVI Business Companies Act, 2004 insofar as they relate to the material terms of our ordinary shares. Our Memorandum and Articles of Association are available for examination at our registered office and are on file with the SEC.



We have two classes of shares: ordinary shares, which will have identical rights in all respects and rank equally with one another, and preferred shares. Our authorized shares consist of 1,000,000,000 ordinary shares, par value US\$0.001 per share, and 200,000 preferred shares, par value US\$0.001 per share.

## **Our Objects and Purposes**

Under our Memorandum and Articles of Association, we have, irrespective of corporate benefit, full capacity to carry on or undertake any business or activity, do any act or enter into any transaction.

## **Preferred Shares**

### ***Dividends***

The holders of preferred shares are entitled to receive, when and as declared by the board of directors out of any funds legally available therefor, a dividend per share equal to any dividends per share declared on shares of our ordinary shares. Dividends on the preferred shares shall be paid or declared and set apart for payment before any dividends shall be paid or declared and set apart for payment on the ordinary shares with respect to the same dividend period. The right to such dividends on preferred shares is not cumulative, and no rights accrue to the holders of such shares by reason of the board's failure to pay or declare and set apart dividends thereon.

### ***Liquidation Preference***

In the event of any liquidation, dissolution or winding up of the affairs of the Company, whether voluntary or involuntary, the holders of preferred shares are entitled to a liquidation preference to be paid first out of our assets available for distribution to holders of our shares of all classes an amount equal to US\$25 per preferred share before any distribution of assets. If our assets shall be insufficient to permit the payment in full to the holders of the preferred shares, then our entire assets available for such distribution shall be distributed ratably among the holders of the preferred shares in proportion to the full preferential amount each such holder is otherwise entitled to receive.

### ***Voting Rights***

Holders of our preferred shares, as a class, will be entitled to vote 3,191,225 shares, subject to adjustment for stock splits, stock dividends and combinations, in all matters voted on by our shareholders.

## **Ordinary Shares**

### ***General***

All of our outstanding ordinary shares are fully paid and non-assessable. Certificates representing the ordinary shares are issued in registered form. Our shareholders who are nonresidents of the British Virgin Islands may freely hold and vote their shares.

### ***Dividends***

The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors, subject to The BVI Business Companies Act, 2004.

### ***Liquidation***

On a return of capital on winding-up or otherwise (other than on conversion, redemption or purchase of shares), assets available for distribution among the holders of ordinary shares shall be distributed among the holders of the ordinary shares on a pro rata basis, but subject to the liquidation preference of the holders of the preferred shares. If our assets available for distribution are insufficient to repay all of the paid-up shares, the assets will be distributed so that the losses are borne by our shareholders proportionately, but, as above, subject to the liquidation preference of the holders of the preferred shares.

### ***Voting Rights***

Each ordinary share is entitled to one vote on all matters upon which our shares are entitled to vote.

## **Convertible Bonds—December 2013, January 2014 and March 2014**

### ***General***

On December 20, 2013, January 27, 2014 and March 20, 2014, the Company issued an aggregate amount of US\$30,000,000, 10 per cent convertible bonds (the “2016 Bonds” or “2016 CBs”) due 2016 convertible into ordinary shares of the Company in a private placement, where US\$15,000,000 of which was issued to one of its major shareholders, Mr. Cheng Chung Hing and the remainder to certain independent third parties and an existing shareholder. Interest is payable on the principal amount of the 2016 Bonds semi-annually.

### ***Conversion Price of Bonds***

All (but not less than all) of the principal amounts of the 2016 CBs of each of the investors will be convertible into ordinary shares of the Company at an initial conversion price per Ordinary Share equal to US\$1.30. The 2016 CBs are convertible during their entire tenure. Based on such initial conversion price, 23,076,919 of the Company’s ordinary shares are issuable upon conversion of the 2016 CBs, representing approximately 31.38% of the total issued share capital of the Company and approximately 23.88% of the total issued share capital of the Company as enlarged by such issue and assuming no existing warrants of the Company are exercised and no further issue of shares.

### ***Company Covenants and Investor Put Right***

Under the terms of the 2016 CBs, the Investors has the right to put back the 2016 CBs to the Company after 18 months of the date of issue of the 2016 CBs at an amount equal to 100 percent of the principal amounts outstanding of the 2016 CBs to be repaid with accrued but unpaid interest. The 2016 CBs will have limited anti-dilution protection, which will include adjustments for consolidation, subdivision or reclassification.

### ***Anti-dilution protection***

The 2016 Bonds will have limited anti-dilution protection, which will include adjustments for consolidation, reclassification or subdivision.

### ***Listing of Shares***

The ordinary shares underlying the 2016 Bonds have been listed on the NYSE MKT.

### ***Affiliate Transaction***

Mr. Cheng Chung Hing is our affiliate by his deemed beneficial ownership of over 50% of our issued and outstanding ordinary shares through Kind United Holdings Limited and himself personally. Accordingly, the issuance of the 2016 Bonds constitutes a transaction with our affiliate (the “2016 Affiliate Transaction”) which is subject to, amongst other things, the review and approval of our board of the Company and our Audit Committee.

Our board and our Audit Committee are of the opinion that the 2016 Affiliate Transaction is in our best interests and our shareholders as a whole and our board and our Audit Committee each approved the 2016 Affiliate Transaction on December 9, 2013.

### ***Rights as a Shareholder***

Except as otherwise provided in the 2016 Bonds or by virtue of such holder’s ownership of our ordinary shares, a holder of a 2016 Bond does not have the rights or privileges of a holder of our ordinary shares, including any voting rights, unless the holder has converted the 2016 Bonds.

## **Convertible Bonds—August 2012**

### ***General***

On August 15, 2012 we issued US\$60,000,000 principal amount, 14 per cent. guaranteed secured convertible bonds (the “Bonds”) due 2017 and 6,000,000 warrants to purchase ordinary shares (the “CB Warrants”) in a private placement to our affiliate Willis Plus Limited (the “Investor”). Commencing August 15, 2013, the Bonds are convertible into our ordinary shares at an initial conversion price of US\$1.0811 per share; and the CB Warrants are exercisable to purchase ordinary shares at an initial exercise price of \$1.2973 per share, respectively. The Investor is a special purpose entity owned by our Majority Shareholders. The Investor borrowed the funds used to purchase the Bonds from PA Universal Opportunity VII Limited. The use of proceeds is intended for project development costs for several property development projects in mainland China.

We filed a registration statement with the Securities & Exchange Commission (“SEC”) covering the public resale of a portion of the ordinary shares issuable upon conversion of the Bonds and the exercise of the CB Warrants (defined below) pursuant to a registration rights agreement between the parties. The registration statement was declared effective on April 4, 2013. As ordinary shares are sold into the market, the Company will have the right to file subsequent registration statements to register the resale of additional shares, subject to certain limitations contained in the SEC’s rules.

The Bonds are jointly and severally guaranteed by M.S. Electronic Emporium Limited, China Metro-Rural Limited, China Metro-Rural Exchange Limited, China Metro-Rural Development Limited, China Glorious City Development Limited, China Glorious City Construction Limited, China Glorious City Investments Limited, China Glorious City Strategic Limited, China Glorious City (No.1) Limited, China Glorious City (No.2) Limited, China Glorious City (No.3) Limited, China Glorious City (No.4) Limited, China Glorious City (No.5) Limited, China Glorious City No.1 Limited, China Glorious City No.2 Limited, China Glorious City No.3 Limited, China Glorious City No.4 Limited and China Glorious City No.5 Limited (the “Subsidiary Guarantors”, being our non-PRC subsidiaries) and secured by share pledges over the issued share capital of the Subsidiary Guarantors that we own.

### ***Conversion Price of Bonds***

All (but not part only) of the principal amount of the Bonds are convertible into our ordinary shares at an initial conversion price per Ordinary Share equal to US\$1.0811. The Bonds are not convertible until August 15, 2013. Based on such initial conversion price, 55,499,028 of the Company’s ordinary shares are issuable upon conversion of the Bonds, representing approximately 75.46% of the total issued share capital of the Company and approximately 43.01% of the total issued share capital of the Company as enlarged by such issue and assuming no existing warrants of the Company are exercised and no further issue of shares.

### ***Company Covenants and Investor Put Right***

Under the terms of the Bonds, the Company undertakes to comply with certain financial covenants and will need to seek consent of holders of Bonds in respect of certain corporate activities and major transactions. Under the terms of the Bonds, if the Bonds have not previously been converted, the Investor has the right to put back the Bonds to the Company on the third anniversary of the date of issue of the Bonds at an amount equal to 100 percent of the principal amount outstanding of the Bonds to be repaid with accrued but unpaid interest and the relevant PIK Payment (as defined below).

### ***PIK Payment***

On the earlier of the date on which the Bonds are put back to the Company, or maturity, the Company shall also pay a premium on the principal amount of the Bonds outstanding equal to the aggregate of the following amounts, collectively, the PIK Payment:

(a) an amount representing interest accrued through the date ending on the earlier of the anniversary of the issue date of the Bonds or the relevant date of redemption or repayment, at the rate of 7 per cent. per annum of the principal amount of the Bonds then outstanding, compounded annually (the “PIK Principal Portion”); and

(b) each PIK Principal Portion shall bear interest from the relevant date on which the PIK Principal Portion is first incurred at a rate of 21 per cent. per annum compounding on an annual basis.

### ***Issuance of CB Warrants***

Simultaneously with the issue of the Bonds, we issued to the Investor warrants, or CB Warrants, exercisable to purchase up to 6,000,000 ordinary shares of the Company at an initial exercise price of US\$1.2973 per Ordinary Share, representing a 20% premium over the initial conversion price of the Bonds, exercisable for the four (4) year period commencing August 15, 2013 (the first anniversary of the date of issue of the Bonds). The terms of the CB Warrants further provide that in case no registration statement is available for resale of ordinary shares which may be issued under the CB Warrants (the “Exercise Shares”), the holder of the CB Warrants may elect to receive Exercise Shares by way of cashless exercise pursuant to which the difference of the Current Market Value (as defined under the terms of the CB Warrants) of the Exercise Shares and the exercise price which would have been received for the Exercise Shares would be used to determine the net number of Exercise Shares to be issued to the holder of the CB Warrants. The Company may have the option to pay cash instead of issued ordinary shares. In the event the Company seeks an alternate listing on a recognized stock exchange and the listing of the shares to be issued under the CB Warrants is not allowed or the listing of the shares would be deferred for reasons associated with the CB Warrants, the Company shall have a right to cancel the CB Warrants by compensating the holder of the CB Warrants with one Ordinary Share for every three CB Warrants tendered for surrender, credited as fully paid.

### ***Anti-dilution protection***

The Bonds and CB Warrants will have customary anti-dilution protection, which will include adjustments for (i) consolidation, reclassification or subdivision, (ii) capitalization of profits or reserves, (iii) capital distributions including cash or non-cash dividends (except aggregate cash dividends in a fiscal year not exceeding the lower of (A) 25% of consolidated net profit attributable to our equity holders immediately preceding fiscal year), and (B) dividend yield of 6% of the volume weighted average prices of each trading day in the 30 days immediately prior to the announcement of such dividend, (iv) rights issues of shares or options over shares, (v) rights issues of other securities, (vi) new issues and other issues of securities at a discount of more than 5% to Current Market Price, (vii) modification of rights of conversion, exchange, etc, where the consideration per share receivable is at a discount of more than 5% to Current Market Price, (viii) other offers of securities in connection with which the shareholders as a class are entitled to participate, (ix) issues of new shares at a discount of more than 5% of the prevailing conversion price in which case adjustment of the conversion price shall occur on a full ratchet basis, and (x) and transactions which are similar to the foregoing, except that existing warrants issued by the Issuer and employee share schemes or incentives (subject to a cap of 10 % of our total share capital), will each not result in such adjustment.

### ***Listing of Shares***

The ordinary shares underlying the Bonds and the CB Warrants have been listed on the NYSE MKT.

### ***Affiliate Transaction***

Prior to the issuance of the Bonds and CB Warrants, we originally sought the investment directly from PAG. In the negotiation process, PAG demanded the personal guarantee from our Majority Shareholders and sought collateral from them. As a result of that dialogue, the Majority Shareholders sought consideration from PAG and us in connection with the guarantee and security requested by PAG. The net result was that PAG would make a loan of US\$60,000,000 to the Investor and the Investor would use the loan proceeds to purchase the Bonds. Under this arrangement, PAG is entitled to receive 20% of any gross return realized by the Investor on the Bonds and CB Warrants, net of certain permitted expenses, that is in excess of 21% per annum internal rate of return payable on the PAG bond.

The Investor is categorized as our affiliate since both shareholders of the Investor, Mr. Cheng and Mr. Leung are together deemed to be our largest shareholder, by their deemed beneficial ownership of over 50% of our issued and outstanding ordinary shares through Kind United Holdings Limited. Accordingly, the issuance of the Bonds and CB Warrants each constitutes a transaction with our affiliate (the “Affiliate Transaction”) which is subject to, amongst other things, the review and approval of our board of the Company and our Audit Committee.

Our board and our Audit Committee are of the opinion that the Affiliate Transaction is in our best interests and our shareholders as a whole and our board and our Audit Committee each approved the Affiliate Transaction on July 17, 2012.

### ***General Provisions of Our Shares***

***Voting and Quorum.*** Subject to the rights attached to the preferred shares whose holders shall as a class be entitled to such number of votes as shall constitute 3,191,225 ordinary shares, every holder of ordinary shares present in person or by proxy at a meeting of the shareholders shall have one vote and on a poll every holder of ordinary shares and every person representing such shareholder by proxy shall have one vote for each issued and outstanding voting ordinary share registered in his name, or the name of the person represented by proxy, in the register of shareholders. Subject to any provisions to the contrary in The BVI Business Companies Act 2004 or in our Memorandum and Articles of Association, holders of our ordinary shares and preferred shares shall vote together as one class. If the Chairman shall have any doubt as to the outcome of any resolution put to the vote, he shall cause a poll to be taken of all votes cast upon such resolution, but if the Chairman shall fail to take a poll then any shareholder present in person or by proxy who disputes the announcement by the Chairman of the result of any vote may immediately following such announcement demand that a poll be taken and the Chairman shall thereupon cause a poll to be taken. If a poll is taken at any meeting, the result thereof shall be duly recorded in the minutes of that meeting by the Chairman.

A quorum required for a meeting of shareholders consists of at least two shareholders present in person or by proxy or, if a corporation, by its duly authorized representative holding not less than one-third of the outstanding voting shares in our company. Shareholders' meetings may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding in the aggregate 30% or more of our voting share capital. Advance notice of at least 10 (but not more than 60) days is required for the convening of our annual general shareholders' meeting and any other general shareholders' meeting. Our shareholders' meeting may be held in such place within or outside the British Virgin Islands as our board of directors considers appropriate.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares (including preferred shares which represent ordinary shares) cast in a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the ordinary shares (including preferred shares which represent ordinary shares). An ordinary resolution is required for matters such as an amendment of the Memorandum and Articles of Association to increase or reduce the number of shares that we are authorized to issue and a repurchase of our outstanding shares. An ordinary resolution is required for the removal of directors with cause.

***Transfer of Shares.*** Any transfer of our shares shall be evidenced by a written instrument of transfer executed by or on behalf of the transferor and containing the name and address of the transferee. A transfer of shares is effective when the name of the transferee is entered in our share register in respect of such shares and we shall not be required to treat a transferee of a share as a shareholder until the transferee's name has been entered in the register.

***Calls on Shares and Forfeiture of Shares.*** Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time and place of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

***Redemption of Shares.*** The directors may, on our behalf, subject to an ordinary resolution of members (including the written consent of all the members whose shares are to be purchased, redeemed or otherwise acquired), purchase, redeem or otherwise acquire any of our own shares for such consideration as they consider appropriate, and either cancel or hold such shares as treasury shares. The directors may dispose of any shares held as treasury shares on such terms and conditions as they may from time to time determine. Shares may be purchased or otherwise acquired in exchange for newly issued shares.

***Variation of Rights of Shares.*** If at any time our shares are divided into different classes, the rights attached to any class or series of shares (unless otherwise provided by the terms of issue of the shares of that class or series), whether or not we are being wound-up, may be varied with the consent in writing of the holders of a simple majority of the issued shares of that class or series or with the sanction of a resolution passed by a simple majority of the votes cast at a separate meeting of the holders of the shares of the class or series.

***Inspection of Register of Members.*** Our register of members and branch register of members shall be open for inspection by shareholders for such times and on such days as our board of directors shall determine, without charge, at the registered office or such other place at which the register is kept in accordance with The BVI Business Companies Act, 2004, unless the register is closed in accordance with our Memorandum and Articles of Association.

***Designations and Classes of Shares.*** All of our issued and outstanding are ordinary shares and preferred shares. Our Memorandum and Articles of Association provide that our authorized unissued shares shall be at the disposal of our board of directors, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration and upon such terms and conditions as our board may in its absolute discretion determine.

## **Shareholders**

Only persons who are registered in the register of members are recognized as our shareholders.

***No Limitations on Ownership of Securities.*** There are no limitations on the right of non-residents or foreign persons to own our securities imposed by BVI laws or by our Memorandum and Articles of Association.

**Ownership Threshold.** There are no provisions governing the ownership threshold above which shareholder ownership must be disclosed imposed by BVI laws or by our Memorandum and Articles of Association.

### **Changes in Capital**

We may, by an ordinary resolution of members, amend our Memorandum and Articles of Association to increase or reduce the maximum number of shares that we are authorized to issue.

Subject to our Memorandum and Articles of Association, we may, by an ordinary resolution of members:

- divide our shares, including issued shares, into a larger number of shares; or
- combine our shares, including issued shares, into a smaller number of shares;

provided that, where shares are divided or combined, the aggregate par value of the new shares must be equal to the aggregate par value of the original shares.

### **Directors' Power to Issue Shares**

Our Memorandum and Articles of Association authorizes our board of directors to issue additional ordinary and preferred shares from time to time as our board of directors shall determine, up to the amount of the available authorized but unissued shares.

Our board of directors may issue preferred shares without action by its shareholders up to the amount of the authorized but unissued preferred shares. The issuance of preferred shares may be used as an anti-takeover device without further action on the part of the shareholders. The issuance of these shares could adversely affect the rights of holders of our ordinary shares. Subject to the directors' duty of acting in our interest, preferred shares can be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. Additionally, the issuance of preferred shares may have the effect of decreasing the market price of the ordinary shares, and may adversely affect the rights of the holders of the ordinary shares.

### **Conflicts of Interest**

A director shall, forthwith after becoming aware of the fact that he is interested in a transaction entered into or to be entered into by the Company, disclose the interest to the board of directors, unless the transaction or proposed transaction (a) is between the director and the Company and (b) is to be entered into in the ordinary course of the Company's business and on usual terms and conditions.

A transaction entered into by the Company in respect of which a director is interested is voidable by the Company unless the director complies with the above provision or (a) the material facts of the interest of the director in the transaction are known by the shareholders entitled to vote at a meeting of shareholders and the transaction is approved or ratified by an ordinary resolution of shareholders or (b) the Company received a fair value for the transaction.

A director who is interested in a transaction entered into or to be entered into by the Company may vote on a matter relating to the transaction, attend a meeting of directors at which a matter relating to the transaction arises and be included among the directors present at the meeting for the purposes of a quorum and sign a document on behalf of the Company, or do any other thing in his capacity as director that related to the transaction.

### **Remuneration of Directors**

Directors shall not receive any stated salary for their services, but by a resolution of directors a fixed sum may be allowed for attendance at each meeting of the board.

### **Directors' Power to Manage Business**

The board of directors have all the powers necessary for managing and for directing and supervising the business and affairs of the Company and may, from time to time and at its discretion, exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party, and may exercise power in such manner and upon such terms and conditions in all respects as it thinks fit.

## **Indemnification**

British Virgin Islands law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the British Virgin Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime.

Our Memorandum and Articles of Association provide that, subject to The BVI Business Companies Act, 2004, we will indemnify against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with legal, administrative or investigative proceedings any person who:

- is or was a party or is threatened to be made a party to any threatened, pending or completed proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that the person is or was a director, an officer or a liquidator of our company; or
- is or was, at the request of our company, serving as a director, officer or liquidator of, or in any other capacity is or was acting for, another body corporate or a partnership, joint venture, trust or other enterprise.

To be entitled to indemnification, these persons must have acted honestly and in good faith and in the best interest of our company, and they must have had no reasonable cause to believe their conduct was unlawful.

If any such person mentioned above has been successful in defense of any proceedings referred to above, that person is entitled to be indemnified against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred by that person in connection with the proceedings.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

## **Limitations on Rights to Hold or Vote Shares**

Except as described herein, there are no limitations imposed by British Virgin Islands law or by our Memorandum and Articles of Association on the rights of non-resident shareholders to hold or vote our ordinary shares.

## **Exchange Controls**

There are no material British Virgin Islands laws, decrees, regulations or other legislation that impose foreign exchange controls on us or that affect our payment of dividends, interest or other payments to non-resident holders of our shares.

## **Anti-Takeover Effects of Our Memorandum and Articles of Association**

Some provisions of British Virgin Islands law and our Memorandum and Articles of Association could make the acquisition of us by means of a tender offer or merger, or by means of a proxy contest or otherwise, more difficult.

These provisions, which include a "business combination" provision, are expected to discourage coercive takeover practices and inadequate takeover bids. Although as a British Virgin Islands company, we are not subject to Section 203 of the Delaware General Corporation Law, the business combination provision in our articles largely mirror the intention of Section 203 and generally prohibit "business combinations" between us and an "interested shareholder." These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors. We believe the benefits of the potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging those proposals because negotiation of them could result in an improvement of their terms.

**Transfer Agent and Registrar**

The transfer agent and registrar for our ordinary and preferred shares is American Stock Transfer & Trust Company.

**Disclosure of Share Ownership**

Our Memorandum or Articles of Association do not provide for any ownership threshold above which shareholder ownership must be disclosed.

**Amendment of Memorandum and Articles of Association**

The Company may at any time and from time to time by ordinary resolution alter or amend its Memorandum of Association and Articles of Association in whole or in part subject, in the case of any alteration or amendment which modifies the rights of a class of shares, to consent from holders of that class of shares as more fully set out above.



## C. Material Contracts

Other than those listed in the paragraphs below, we have not entered into any material contracts other than in the ordinary course of business or other than those described in Item 4 “Information on the Company” and elsewhere in this Annual Report.

On June 6, 2012, one of our subsidiaries, China Tieling Northeast entered into an RMB syndicated loan contract with ICBC and China Merchant Bank (“CMB”), under which ICBC and CMB extended an amount of RMB97,000,000 loan to China Tieling Northeast. The term of this loan is from date of drawn down (June 25, 2012) to June 25, 2015.

On July 24, 2012, we entered into certain agreements in connection with the issuance of US\$60,000,000 principal amount, 14 per cent. guaranteed secured convertible bonds (the “Bonds”) and 6,000,000 warrants to purchase Ordinary Shares (the “CB Warrants”) in a private placement to the Investor. The Investor is a special purpose entity owned by our Majority Shareholders. The Investor borrowed from PAG the funds used to purchase the Bonds. The use of proceeds is intended for project development costs for several property development projects in mainland China.

Prior to the issuance of the Bonds and CB Warrants, we originally sought the investment directly from PAG. In the negotiation process, PAG demanded the personal guarantee from our Majority Shareholders and sought collateral from them. As a result of that dialogue, the Majority Shareholders sought consideration from PAG and us in connection with the guarantee and security requested by PAG. The net result was that PAG would make a loan of US\$60,000,000 of bonds to the Investor and the Investor would use the loan proceeds to purchase the Bonds and CB Warrants. Under this arrangement, PAG is entitled to receive 20% of any gross return realized by the Investor on the Bonds and CB Warrants, net of certain permitted expenses, that is in excess of 21% per annum internal rate of return payable on the PAG bond.

On October 15, 2012, we, through our subsidiary, entered into an agreement for the disposition of 100% of our equity interest in China Focus City (H.K.) Holdings Limited and 75% of our equity interest in Qiqihar China Focus City Holdings (Group) Co. Ltd. (“Qiqihar CFC”) to Run Xing Investments Limited and Honour Noble Holdings Limited (collectively, the “Purchasers”) (collectively the “Sale”). Pursuant to the agreement, we, through our subsidiaries, are to receive considerations of RMB150,000,000 plus an amount of RMB85,595,967, representing certain post-tax profits arising from Qiqihar CFC prior to the Sale, and interest on the pre-tax balance of such amount calculated from July 28, 2012 through the date of payment. In addition, the Purchasers are to enter into a legally binding guaranty with respect to our remaining 25% interest in Qiqihar CFC that we will receive (X) a pre-tax 21% fixed annual return of our remaining 25% interest in Qiqihar CFC, (equal to RMB10,500,000) beginning October 15, 2013 and (Y) RMB50,000,000 on or before October 14, 2013.

The Purchasers shall have the right to purchase the remaining 25% interest in Qiqihar CFC at any time for RMB50,000,000 (plus any amounts due and payable under (X) and (Y) above). Finally, in the event that the Purchasers intend to sell its interests in Qiqihar CFC, they must first purchase our 25% interest in Qiqihar CFC. The payments of the amounts described above shall be guaranteed by the Purchasers and Qiqihar CFC, as well as Mr. Su Shaobin, who was one of our directors.

On October 24, 2012, one of our subsidiaries, China Dezhou Northeast entered into an RMB loan contract with Bank of China, under which Bank of China extended an amount of RMB65,000,000 loan to China Dezhou Northeast. The term of this loan is from date of drawn down (October 24, 2012) to December 25, 2014.

On October 25, 2012, one of our subsidiaries, China Tieling Northeast entered into an RMB syndicated loan contract with ICBC and CMB, under which ICBC and CMB extended an amount of RMB141,000,000 loan to China Tieling Northeast. The term of this loan is from date of drawn down (November 1, 2012) to October 31, 2015.

On March 15, 2013, one of our subsidiaries, China Metro-Rural Limited, entered into six HK\$ loan agreements, where the terms and conditions of the loan agreements are identical except for the amount, with certain independent third parties, under which these third parties extended an aggregate amount of HK\$60,000,000 loan to China Metro-Rural Limited. The term of these loans is from March 15, 2013 to March 14, 2015. These loans were unsecured and interest bearing at 18% per annum. These loans were fully repaid during the fiscal year ended March 31, 2015.

On May 8, 2013, one of our subsidiaries, China Hengyang Glorious, entered into an RMB loan contract with ICBC, under which ICBC extended an amount of RMB80,000,000 loan to China Hengyang Glorious. The term of this loan is from date of drawn down (May 9, 2013) to April 25, 2014.

On June 21, 2013, one of our subsidiaries, China Dezhou Northeast, entered into an RMB loan contract with AVIC Trust Co., Ltd., under which AVIC Trust Co., Ltd. extended an amount of RMB250,000,000 loan to China Dezhou Northeast. The term of this loan is from date of drawn down (June 21, 2013) to June 21, 2014.

On June 26, 2013, one of our subsidiaries, China Hengyang Glorious, entered into an RMB loan contract with ICBC, under which ICBC extended an amount of RMB20,000,000 loan to China Hengyang Glorious. The term of this loan is from date of drawn down (July 8, 2013) to April 25, 2014.

On July 1, 2013, one of our subsidiaries, China Tieling Northeast, entered into an RMB loan contract with Bank of Tieling, under which Bank of Tieling extended an amount of RMB10,000,000 loan to China Tieling Northeast. The term of this loan is from date of drawn down (July 1, 2013) to June 30, 2014.

On October 24, 2013, one of our subsidiaries, China Tieling Northeast, entered into an RMB loan contract with Bank of Tieling, under which Bank of Tieling extended an amount of RMB50,000,000 loan to China Tieling Northeast. The term of this loan is from date of drawn down (November 12, 2014) to October 21, 2016.

On November 21, 2013, one of our subsidiaries, China Hengyang Glorious, entered into an RMB loan contract with ICBC, under which ICBC extended an amount of RMB150,000,000 loan to China Hengyang Glorious. The term of this loan is from date of drawn down (November 21, 2013) to November 6, 2014.

On November 21, 2013, the Company entered into a HK\$ loan agreement with an independent third party, under which this third party extended an amount of HK\$120,000,000 loan to the Company. The term of this loan is from November 21, 2013 to November 20, 2014. This loan is unsecured, interest bearing at 20% per annum. This loan was fully repaid during the fiscal year ended March 31, 2015.

On December 20, 2013 and March 20, 2014, the Company issued an aggregate amount of US\$15,000,000, 10 per cent convertible bonds (the “2016 Bonds” or “2016 CBs”) due 2016 convertible into ordinary shares of the Company in a private placement to one of its major shareholders, Mr. Cheng Chung Hing.

On December 20, 2013 and January 27, 2014, the Company issued an additional aggregate amount of US\$15,000,000 of 2016 Bonds in a private placement to independent third parties and an existing shareholder.

On March 17, 2014, one of our subsidiaries, China Tieling Northeast, entered into an RMB loan contract with Bank of Tieling, under which Bank of Tieling extended an RMB15,000,000 loan to China Tieling Northeast. The term of this loan is from date of drawn down (April 3, 2014) to March 16, 2015.

On April 2, 2014, one of our subsidiaries, Shenzhen Northeast Logistics City Co., Ltd., entered into an RMB loan contract with an independent third party, under which this independent third party extended an amount of RMB30,000,000 loan to Shenzhen Northeast Logistics City Co., Ltd.. The term of this loan is from April 2, 2014 to April 1, 2016. This loan is unsecured, interest bearing at 15% per annum.

On April 2, 2014, one of our subsidiaries, Shenzhen Northeast Logistics City Co., Ltd., entered into an RMB loan contract with an independent third party, under which this independent third party extended an amount of RMB28,800,000 loan to Shenzhen Northeast Logistics City Co., Ltd.. The term of this loan is from April 2, 2014 to April 1, 2016. This loan is unsecured, interest bearing at 15% per annum.

On April 4, 2014, one of our subsidiaries, Shenzhen Northeast Logistics City Co., Ltd., entered into an RMB loan contract with an independent third party, under which this independent third party extended an amount of RMB35,000,000 loan to Shenzhen Northeast Logistics City Co., Ltd.. The term of this loan is from April 4, 2014 to April 3, 2016. This loan is unsecured, interest bearing at 15% per annum.

On April 8, 2014, the Company entered into a HK\$ loan agreement with an independent third party, under which this party extended an amount of HK\$45,000,000 loan to the Company. The term of this loan is from April 8, 2014 to April 7, 2015. This loan was unsecured and interest bearing at 17% per annum. This loan was fully repaid on April 2, 2015.

On April 10, 2014, one of our subsidiaries, Shenzhen Northeast Logistics City Co., Ltd., entered into an RMB loan contract with an independent third party, under which this independent third party extended an amount of RMB88,200,000 loan to Shenzhen Northeast Logistics City Co., Ltd.. The term of this loan is from April 10, 2014 to April 9, 2016. This loan is unsecured, interest bearing at 15% per annum.

On May 4, 2014, one of our subsidiaries, China Zhoukou Glorious Investments, entered into an RMB loan contract with ICBC, under which ICBC extended an amount of RMB150,000,000 loan to China Zhoukou Glorious Investments. The term of this loan is from date of drawn down (June 9, 2014) to June 9, 2016.

On June 30, 2014, one of our subsidiaries, China Zhoukou Glorious Investments, entered into an RMB loan contract with Bank of China, under which Bank of China extended an amount of RMB10,000,000 loan to China Zhoukou Glorious Investments. The term of this loan is from date of drawn down (June 30, 2014) to June 30, 2015.

On June 30, 2014, one of our subsidiaries, China Zhoukou Glorious Investments, entered into an entrusted debt investment agreement with BOC International (China) Limited and Bank of China, under which BOC International (China) Limited as principal and Bank of China as trustee extended an amount of RMB90,000,000 loan to China Zhoukou Glorious Investments. The term of this loan is from date of drawn down (June 30, 2014) to June 30, 2015.

On July 7, 2014, one of our subsidiaries, Tieling Shengtai Hotel Co., Ltd., entered into an RMB loan contract with Tieling Xinxing Village Bank, under which Tieling Xinxing Village Bank extended an amount of RMB3,500,000 loan to Tieling Shengtai Hotel Co., Ltd.. The term of this loan is from date of drawn down (July 7, 2014) to July 6, 2015.

On August 7, 2014, the Company entered into a HK\$ loan agreement with an independent third party, under which this party extended an aggregate amounts of HK\$35,000,000 loan to the Company. The term of this loan is from August 7, 2014 to August 6, 2015. This loan is unsecured, interest bearing at 17% per annum with interest payable semi-annually.

On September 19, 2014, the Company entered into a HK\$ loan agreement with one of its major shareholders, Mr. Cheng Chung Hing, Ricky, under which Mr. Cheng Chung Hing, Ricky extended an amount of HK\$30,000,000 loan to the Company. The term of this loan is from September 19, 2014 to September 18, 2016. This loan was obtained by the Company in order to repay maturing loans and bears an interest rate of 16% per annum with interest payable semi-annually.

On September 22, 2014, the Company entered into a HK\$ loan agreement with one of its major shareholders, Mr. Cheng Chung Hing, Ricky, under which Mr. Cheng Chung Hing, Ricky extended an amount of HK\$35,000,000 loan to the Company. The term of this loan is from September 22, 2014 to September 21, 2016. This loan was obtained by the Company in order to repay maturing loans and bears an interest rate of 16% per annum with interest payable semi-annually.

On February 11, 2015, the Company entered into a HK\$ loan agreement with an independent third party, under which this party extended an aggregate amount of HK\$13,000,000 loan to the Company. The term of this loan is from February 11, 2015 to May 10, 2015 but was extended to August 10, 2015. This loan is unsecured, interest bearing at 6% per annum with interest payable upon maturity.

On March 12, 2015, one of our subsidiaries, China Tieling Northeast, entered into an RMB loan contract with Bank of Tieling, under which Bank of Tieling extended an amount of RMB50,000,000 loan to China Tieling Northeast. The term of this loan is from date of drawn down (March 24, 2015) to September 30, 2015.

On April 1, 2015, the Company entered into an HK\$45,000,000 loan contract with one of its major shareholders, Mr. Cheng Chung Hing, Ricky, under which Mr. Cheng Chung Hing, Ricky extended an amount of HK\$45,000,000 to the Company. The term of this loan is from April 1, 2015 to March 31, 2017. This loan was obtained by the Company in order to repay maturing loans and bears an interest rate of 16% per annum with interest payable semi-annually.

On April 15, 2015, one of our subsidiaries, China Hengyang Glorious, entered into an RMB loan contract with ICBC, under which ICBC extended an amount of RMB100,000,000 loan to China Zhoukou Glorious Investments. The term of this loan is from date of drawn down (April 29, 2015) to April 28, 2016.

On July 1, 2015, one of our subsidiaries, China Zhoukou Glorious Investments, entered into an RMB loan contract with Bank of China under which Bank of China extended an amount of RMB100,000,000 loan to China Zhoukou Glorious Investments. The term of this loan is from date of drawn down (August 14, 2015) to August 13, 2016.

On August 4, 2015, the Company entered into an HK\$55,000,000 loan agreement with one of its major shareholders, Mr. Cheng Chung Hing, Ricky, under which Mr. Cheng Chung Hing, Ricky extended an amount of HK\$55,000,000 loan to the Company. The term of this loan is from August 4, 2015 to August 3, 2017. This loan was obtained by the Company in order to repay loan interest and bears an interest rate of 15% per annum with interest payable semi-annually.

On November 3, 2015, one of our subsidiaries, China Glorious City Holdings Limited, entered into an HK\$200,000,000 loan agreement with one of its major shareholders, Mr. Cheng Chung Hing, Ricky, under which Mr. Cheng Chung Hing, Ricky extended an amount of HK\$200,000,000 loan to China Glorious City Holdings Limited. The term of this loan is from November 3, 2015 to November 9, 2015. This loan bore an interest rate of 6% per annum with interest payable upon repayment and was fully repaid.

On January 20, 2016, the Company entered into an HK\$50,000,000 loan agreement with one of its major shareholders, Mr. Cheng Chung Hing, Ricky, under which Mr. Cheng Chung Hing, Ricky extended an amount of HK\$50,000,000 loan to the Company. The term of this loan is from January 20, 2016 to January 19, 2017. This loan was obtained by the Company in order to repay loan interest and bears an interest rate of 15% per annum with interest payable semi-annually.

On March 25, 2016, one of our subsidiaries, China Nanyang Glorious, entered into an RMB loan contract with Bank of China, under which Bank of China extended an amount of RMB100,000,000 loan to China Nanyang Glorious. The term of this loan is from date of drawn down (March 28, 2016) to March 27, 2017.

#### **D. Exchange Controls**

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations, as amended in August 2008. Under the Regulations, the Renminbi is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless the prior approval of the State Administration of Foreign Exchange, or SAFE, is obtained and prior registration with the State Administration of Foreign Exchange is made. August 29, 2008, the State Administration of Foreign Exchange promulgated a notice, Circular No. 142, regulating the conversion by a foreign-invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. The notice requires that the registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, the State Administration of Foreign Exchange strengthened its oversight of the flow and use of the registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies. The use of such Renminbi capital may not be changed without the State Administration of Foreign Exchange's approval, and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of Circular No. 142 will result in severe penalties, such as heavy fines.

The dividends paid by the subsidiary to its overseas shareholder are deemed income of the shareholder and are taxable in China. Pursuant to the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), foreign-invested enterprises in China may purchase or remit foreign currency, subject to a cap approved by the State Administration of Foreign Exchange, for settlement of current account transactions without the approval of the State Administration of Foreign Exchange. Foreign currency transactions under the capital account are still subject to limitations and require approvals from or registration with, the State Administration of Foreign Exchange and other relevant PRC Governmental authorities.

All of our revenues are denominated in Renminbi, while a portion of our expenditures are denominated in foreign currencies, primarily the U.S. dollar. Fluctuations in exchange rates, particularly those involving the U.S. dollar may affect our costs and operating margins. In addition, these fluctuations could result in exchange losses and increased costs in Renminbi terms. Where our operations conducted in Renminbi are reported in dollars, such fluctuations could result in changes in reported results which do not reflect changes in the underlying operations. Since January 1, 1994, the PRC Government has used a unitary managed floating rate system. Under that system, the People's Bank of China, or PBOC, publishes a daily base exchange rate with reference primarily to the supply and demand of the Renminbi against the U.S. dollar and other foreign currencies in the market during the previous day. Authorized banks and financial institutions are allowed to quote buy and sell rates for Renminbi within a specified bank around the central bank's daily exchange rate. On July 21, 2005, PBOC announced an adjustment of the exchange rate of the U.S. dollar to Renminbi from 1:8.27 to 1:8.11 and modified the system by which the exchange rates are determined. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC Government to adopt an even more flexible currency policy, which could result in a further revaluation and a significant fluctuation of the exchange rate of the Renminbi against the U.S. dollar, including possible devaluations. As substantially all of our revenues are denominated in Renminbi, such a potential future devaluation of the Renminbi against the U.S. dollar could negatively impact our results of operations.

In October 2005, SAFE promulgated regulations that require registration with local SAFE in connection with direct or indirect offshore investment by PRC residents, including PRC individual residents and PRC corporate entities. These regulations apply to our shareholders who are PRC residents and also apply to our prior and future offshore acquisitions.

The SAFE regulations retroactively require registration by March 31, 2006 of direct or indirect investments previously made by PRC residents in offshore companies. If a PRC resident with a direct or indirect stake in an offshore parent company fails to make the required SAFE registration, the PRC subsidiaries of such offshore parent company may be prohibited from making distributions of profit to the offshore parent and from paying the offshore parent proceeds from any reduction in capital, share transfer or liquidation in respect of the PRC subsidiaries. Further, failure to comply with various SAFE registration requirements described above could result in liability under PRC law for foreign exchange evasion.

For more information about foreign exchange control and other foreign exchange regulations in China, see “Risk Factors” in Item 3 “Key Information.”

## **E. Taxation**

*The following summary of the material British Virgin Islands tax consequences and material United States federal income tax consequences of an investment in our ordinary shares and warrants is based upon laws and relevant interpretations thereof in effect as of the date of this Annual Report, all of which are subject to change. We have also provided a summary of the material PRC and Hong Kong taxes in respect of our business operations. This summary does not deal with all possible tax consequences relating to an investment in our ordinary and preferred shares and warrants.*

### **British Virgin Islands Tax Consequences**

Capital gains realized with respect to any of our shares, warrants, debt obligations or other securities by persons who are not persons resident in the British Virgin Islands are exempt from all provisions of the Income Tax Act of the British Virgin Islands. No estate, inheritance, succession or gift tax rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any of our shares, warrants, debt obligations or other securities.

No stamp duty is payable in the British Virgin Islands on a transfer of shares or warrants in a British Virgin Islands business company or upon the exercise of warrants of a British Virgin Islands business company.

### **Material United States Federal Income Tax Consequences**

#### ***General***

The following are the material U.S. federal income tax consequences applicable to U.S. Holders of owning ordinary and preferred shares and warrants of the Company. For this purpose “U.S. Holders” is a beneficial owner of our securities that is for U.S. federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation) that is created or organized (or treated as created or organized) in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust if (i) a U.S. court can exercise primary supervision over the trust’s administration and one or more U.S. persons are authorized to control all substantial decisions of the trust, or (ii) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a beneficial owner of our securities is not described as a U.S. Holder and is not an entity treated as a partnership or other pass-through entity for U.S. federal income tax purposes, such owner will be considered a “Non-U.S. Holder.” This discussion does not address the tax treatment Non-U.S. Holders or of partnerships or other pass-through entities that hold our ordinary shares or warrants, or of persons who hold such ordinary shares or warrants, or will hold our ordinary shares or warrants, through such entities. The U.S. federal income tax consequences of a partner in a partnership holding our ordinary shares or warrants generally will depend on the status of the partner and the activities of the partnership. We recommend that partners in such a partnership and beneficial owners of other pass-through entities holding our ordinary shares or warrants consult their own tax advisors.

The U.S. federal income tax consequences applicable to Non-U.S. Holders owning our ordinary shares are described below under the heading “Tax Consequences to Non-U.S. Holders.”

This summary is based on the Internal Revenue Code, its legislative history, U.S. Treasury regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These authorities are subject to change or differing interpretations, possibly on a retroactive basis.

This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular holder of our ordinary shares or warrants based on such holder’s individual circumstances. In particular, this discussion considers only holders that own and hold such our ordinary shares and warrants as capital assets within the meaning of Section 1221 of the Code. This discussion does not address the potential application of the alternative minimum tax or the U.S. federal income tax consequences to holders that are subject to special rules, including but not limited to:

- banks and certain financial institutions or “financial services entities”;
- broker-dealers;
- taxpayers who have elected mark-to-market accounting;
- tax-exempt organizations, plans or accounts;
- governments or agencies or instrumentalities thereof;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- certain expatriates or former long-term residents of the United States;
- persons that actually or constructively own 10% or more of our voting shares;
- persons that hold our ordinary shares as part of a straddle, constructive sale, hedging, conversion or other integrated transaction; or
- persons whose functional currency is not the U.S. dollar.

This discussion does not address any aspect of U.S. federal non-income tax laws, such as gift or estate tax laws, or state or local tax laws.

We have not sought, and will not seek, a ruling from the Internal Revenue Service, or the IRS, as to any U.S. federal income tax consequence described herein and have not obtained an opinion of counsel in respect of such tax consequences. The IRS may disagree with the conclusions expressed in discussion herein, and its determination may be upheld by a court.

**BECAUSE OF THE COMPLEXITY OF THE TAX LAWS AND BECAUSE THE TAX CONSEQUENCES TO ANY PARTICULAR HOLDER OF OUR SECURITIES MAY BE AFFECTED BY MATTERS NOT DISCUSSED HEREIN, EACH HOLDER OF OUR SECURITIES IS URGED TO CONSULT WITH ITS TAX ADVISOR WITH RESPECT TO THE SPECIFIC TAX CONSEQUENCES OF ACQUISITION, OWNERSHIP AND DISPOSITION OF OF OUR SECURITIES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL AND NON-U.S. TAX LAWS, AS WELL AS OTHER U.S. FEDERAL TAX LAWS.**

## ***Tax Consequences to U.S. Holders of Our Ordinary Shares***

### ***Section 7874 Inversion Rules***

Section 7874(b) generally provides that a corporation organized outside the United States which acquires, directly or indirectly, pursuant to a plan or series of related transactions, substantially all of the assets of a corporation organized in the United States will be treated as a U.S. corporation for U.S. federal income tax purposes if the stockholders of the acquired corporation own at least 80% of either the voting power or the value of the stock of the acquiring corporation after the acquisition by reason of owning shares in the acquired corporation. If Section 7874(b) were to apply to the 2009 liquidation of Man Sang Holdings Inc., we would be subject to U.S. federal income tax on our worldwide taxable income as if we were a U.S. corporation.

Upon completion of the liquidation, the shareholders of Man Sang Holdings Inc. owned more than 80% of our then issued and outstanding stock by reason of owning shares in Man Sang Holdings Inc. However, we did not acquire, directly or indirectly, any of the assets of Man Sang Holdings Inc. (other than rights to a potential tax refund, which was insignificant). Thus, we believe that Section 7874(b) should not apply to us and have consistently taken that position for U.S. federal income tax purposes. We have not sought a ruling from the IRS on this point. Therefore, the IRS may assert that we are subject to U.S. federal income tax on our worldwide income.

The remainder of this discussion assumes that we will be treated as a foreign corporation and not as a U.S. corporation for U.S. federal income tax purposes.

### ***Taxation of Distributions Paid on Ordinary Shares***

Subject to the discussion of passive foreign investment companies below, any distributions we make with respect to our ordinary shares to a U.S. Holder should generally constitute dividends, which may be taxable as ordinary income or “qualified dividend income,” as described in more detail below, to the extent of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of our earnings and profits should be treated first as a nontaxable return of capital to the extent of the U.S. Holder’s tax basis in its ordinary shares and thereafter as capital gain. Because we are not a U.S. corporation, U.S. Holders that are corporations should not be entitled to claim a dividends received deduction with respect to any distributions they receive from us.

With respect to certain non-corporate U.S. Holders, including individual U.S. Holders, in respect of our ordinary shares dividends may be taxed at the lower capital gains rate applicable to “qualified dividend income,” provided that (1) either (a) the ordinary shares are readily tradable on an established securities market in the United States or (b) we are eligible for the benefits of a qualifying income tax treaty with the United States that includes an exchange of information program, (2) we are neither a PFIC nor treated as such with respect to you (as discussed below) for the taxable year in which the dividend is paid and the preceding taxable year, and (3) certain holding period requirements are met. Under IRS authority, ordinary shares will be considered for purposes of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on NYSE MKT Equities, as are our ordinary shares. In addition, if we are treated as a “resident enterprise” for PRC tax purposes under the EIT Law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC. You should consult your tax advisors regarding the availability of the lower capital gains rate applicable to qualified dividend income for dividends paid with respect to our ordinary shares.

If PRC withholding taxes apply to dividends paid to you with respect to our ordinary shares, the amount of the dividend paid to you would be net of any PRC taxes withheld and, subject to certain conditions and limitations, such PRC withholding taxes generally would be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. Dividends would constitute foreign source income for foreign tax credit limitation purposes. If the dividends are taxed as qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will in general be limited to the gross amount of the dividend, multiplied by the reduced tax rate applicable to qualified dividend income and divided by the highest tax rate normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to the ordinary shares will generally constitute “passive category income,” but could, in the case of certain U.S. Holders, constitute “general category income.”

The rules relating to the determination of the foreign tax credit are complex and you should consult your tax advisor regarding the availability of a foreign tax credit in your particular circumstances, including the effects of any applicable income tax treaties.

#### *Possible Constructive Distributions*

The terms of a warrant provide for an adjustment to the number of shares for which the warrant may be exercised or to the exercise price of the warrant in certain events. If an adjustment is made to the number of shares for which a warrant may be exercised or to the exercise price of a warrant, the adjustment may, under certain circumstances, result in a constructive distribution that could be taxable as a dividend to a U.S. Holder of the warrant. Conversely, the absence of an appropriate anti-dilution adjustment (e.g., not adjusting the exercise price and number of shares issuable on exercise of the warrant for issuances of shares at a price below the warrant exercise price and below market) may result in a constructive distribution that could be taxable as a dividend to the U.S. Holders of ordinary shares.

#### *Taxation on the Sale, Exchange or other Disposition of Ordinary Shares*

Upon a sale, exchange or other taxable disposition of our ordinary shares, and subject to the PFIC rules discussed below, a U.S. Holder should generally recognize capital gain or loss in an amount equal to the difference between the amount realized and the U.S. Holder's adjusted tax basis in the ordinary shares, if the ordinary shares transferred constitute capital assets. Capital gains recognized by U.S. Holders generally are subject to U.S. federal income tax at the same rate as ordinary income, except that long-term capital gains recognized by non-corporate U.S. Holders are generally subject to U.S. federal income tax at a maximum rate of 20%. Capital gain or loss will constitute long-term capital gain or loss if the U.S. Holder's holding period for the ordinary shares exceeds one year. The deductibility of capital losses is subject to various limitations.

Any gain or loss that you recognize on a disposition of ordinary shares will generally be treated as U.S. source income or loss for foreign tax credit limitation purposes. However, if we are treated as a "resident enterprise" for PRC tax purposes, you may be eligible for the benefits of the income tax treaty between the United States and the PRC. In such event, if PRC tax were to be imposed on any gain from the disposition of the ordinary shares, a U.S. Holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may elect to treat the gain as PRC source income for foreign tax credit purposes. You should consult your tax advisors regarding the proper treatment of gain or loss in your particular circumstances, including the effects of any applicable income tax treaties.

#### *Exercise or Lapse of a Warrant*

A U.S. Holder generally will not recognize gain or loss upon the exercise of a warrant for cash. Ordinary shares acquired pursuant to the exercise of a warrant for cash generally will have a tax basis equal to the U.S. Holder's tax basis in the warrant, increased by the amount paid to exercise the warrant. The holding period of such ordinary shares generally would begin on the day after the date of exercise of the warrant. If a warrant is allowed to lapse unexercised, a U.S. Holder generally will recognize a capital loss equal to such holder's tax basis in the warrant.

#### *Passive Foreign Investment Company Rules*

Special U.S. federal income tax rules apply to a U.S. Holder that directly or indirectly holds stock in a foreign corporation classified as a passive foreign investment company, or PFIC, for United States federal income tax purposes. Under Proposed Regulations, a holder of an option (such as the warrants) to acquire stock of a PFIC is deemed to own the stock that may be acquired upon exercise of the option.

The Company will generally be treated as a PFIC with respect to a U.S. Holder if, for any taxable year in which such holder held our ordinary shares, either:

- at least 75% of the Company's gross income for such taxable year consists of passive income (e.g., dividends, interest, capital gains and rents derived other than in the active conduct of a rental business); or
- at least 50% of the average value of the assets held by the corporation during such taxable year produce, or are held for the production of, passive income.



For purposes of determining whether the Company is a PFIC, the Company should be treated as earning and owning its proportionate share of the income and assets, respectively, of any of its subsidiary corporations in which it owns at least 25% of the value of the subsidiary's stock.

Based on the market price of our ordinary shares, the value of our assets and the composition of our income and assets, we do not believe we were a PFIC for U.S. federal income tax purposes for our taxable year ended March 31, 2016. However, the application of the PFIC rules is subject to uncertainty in several respects, and we cannot assure you that the U.S. Internal Revenue Service will not take a contrary position.

We must make a separate determination after the close of each taxable year as to whether we were a PFIC for that year. Because the value of our assets for purposes of the PFIC test will generally be determined by reference to the market price of our ordinary shares, our PFIC status will depend in large part on the market price of the ordinary shares, which may fluctuate significantly.

If we are a PFIC for any taxable year during which you hold ordinary shares, we generally will continue to be treated as a PFIC with respect to you for all succeeding years during which you hold ordinary shares, unless we cease to be a PFIC and you make a "deemed sale" election with respect to the ordinary shares. If such election is made, you will be deemed to have sold the ordinary shares you hold at their fair market value and any gain from such deemed sale would be subject to the consequences described below. After the deemed sale election, your ordinary shares with respect to which the deemed sale election was made would not be treated as shares in a PFIC unless we subsequently become a PFIC.

For each taxable year that we are treated as a PFIC with respect to you, you will be subject to special tax rules with respect to any "excess distribution" that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ordinary shares, unless you make a "mark-to-market" election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the ordinary shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ordinary shares;
- the amount allocated to the current taxable year, and any taxable years in your holding period prior to the first taxable year in which we were a PFIC, will be treated as ordinary income; and
- the amount allocated to each other taxable year will be subject to the highest tax rate in effect for individuals or corporations, as applicable, for each such year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to taxable years prior to the year of disposition or excess distribution cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale or other disposition of the ordinary shares cannot be treated as capital, even if you hold the ordinary shares as capital assets.

If we are treated as a PFIC with respect to you for any taxable year, to the extent any of our subsidiaries are also PFICs, you may be deemed to own shares in such lower-tier PFICs that are directly or indirectly owned by us in that proportion which the value of the ordinary shares you own bears to the value of all of our ordinary shares, and you may be subject to the adverse tax consequences described above with respect to the shares of such lower-tier PFICs that you would be deemed to own. You should consult your tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

A U.S. Holder of "marketable stock" (as defined below) in a PFIC may make a mark-to-market election for such stock to elect out of the tax treatment discussed above. If you make a mark-to-market election for the ordinary shares, you will include in income for each year that we are treated as a PFIC with respect to you an amount equal to the excess, if any, of the fair market value of the ordinary shares as of the close of your taxable year over your adjusted basis in such ordinary shares. You will be allowed a deduction for the excess, if any, of the adjusted basis of the ordinary shares over their fair market value as of the close of the taxable year. However, deductions will be allowable only to the extent of any net mark-to-market gains on the ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ordinary shares, will be treated as ordinary income. Ordinary loss treatment will also apply to the deductible portion of any mark-to-market loss on the ordinary shares, as well as to any loss realized on the actual sale or disposition of the ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ordinary shares. Your basis in the ordinary shares will be adjusted to reflect any such income or loss amounts. The tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us, except that the lower capital gains rate applicable to qualified dividend income would not apply.

The mark-to-market election is available only for “marketable stock,” which is stock that is regularly traded on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations. Our ordinary shares are listed on NYSE MKT Equities, which is a qualified exchange or other market for these purposes. Consequently, if the ordinary shares continue to be listed on NYSE MKT Equities and are regularly traded, and you are a holder of ordinary shares, we expect that the mark-to-market election would be available to you if we were to become a PFIC. Because a mark-to-market election cannot be made for equity interests in any lower-tier PFICs that we own, a U.S. Holder may continue to be subject to the PFIC rules with respect to its indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes. You should consult your tax advisors as to the availability and desirability of a mark-to-market election, as well as the impact of such election on interests in any lower-tier PFICs.

Alternatively, if a non-U.S. corporation is a PFIC, a U.S. Holder of shares in that corporation may avoid taxation under the rules described above by making a “qualified electing fund” election to include in income its share of the corporation’s income on a current basis. However, you may make a qualified electing fund election with respect to your ordinary shares only if we agree to furnish you annually with certain tax information, and we currently do not intend to prepare or provide such information.

If we are classified as a PFIC, you must file United States Internal Revenue Service Form 8621 for each tax year in which you make a disposition of your ordinary shares, receive direct or indirect distributions on your ordinary shares or make a mark-to-market or deemed sale election mentioned above with respect to your ordinary shares. Legislation enacted on March 18, 2010 creates an additional annual filing requirement for tax years beginning on or after the date of enactment for U.S. persons who are shareholders of a PFIC. The legislation does not describe what information will be required to be included in the additional annual filing, but rather grants the Secretary of the U.S. Treasury authority to decide what information must be included in such annual filing. If we are a PFIC for a given taxable year, you should consult your tax advisor concerning the tax consequences to you of such PFIC status, the availability and consequences of making a mark-to-market election mentioned above and your annual filing requirements.

#### *Medicare Tax*

For taxable years beginning after December 31, 2012, a United States person that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on the lesser of (1) the United States person’s “net investment income” for the relevant taxable year and (2) the excess of the United States person’s modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between US\$125 thousand and US\$250 thousand, depending on the individual’s circumstances). A United States person’s net investment income includes its gross dividend income and its net gains from the disposition of stock, unless such dividends or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a United States person that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in our ordinary shares and warrants.

#### *Information with Respect to Foreign Financial Assets*

Individuals who own “specified foreign financial assets” with an aggregate value in excess of US\$50,000 (or such higher amount as is specified in U.S. Treasury regulations) in taxable years beginning after March 18, 2010 will be required to file an information report with respect to such assets with their tax returns. “Specified foreign financial assets” include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties and (iii) interests in foreign entities. U.S. holders that are individuals are urged to consult their tax advisors regarding the application of these reporting rules to their ownership of our ordinary shares and warrants.

## ***Tax Consequences to Non-U.S. Holders***

### ***Non-U.S. Holders of Our Shares***

A Non-U.S. Holder generally will not be subject to U.S. federal income tax on dividends paid in respect of the ordinary shares or on gains recognized in connection with the sale or other disposition of the ordinary shares of the Company, provided that such dividends or gains are not effectively connected with the Non-U.S. Holder's conduct of a United States trade or business.

If the Company is treated as a U.S. corporation pursuant to Section 7874 of the Code, Non-U.S. Holders generally will be subject to withholding tax at a rate of 30% on all dividends paid by the Company, unless a reduced rate of tax is available under a tax treaty.

### ***Backup Withholding and Information Reporting***

Dividend payments with respect to our ordinary shares and proceeds from the sale, exchange or redemption of our ordinary shares or warrants may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status must provide such certification on Internal Revenue Service Form W-9. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules. Backup withholding is not an additional tax.

A Non-U.S. Holder generally may eliminate the requirement for information reporting and backup withholding by providing certification of its foreign status, under penalties of perjury, on a duly executed applicable IRS Form W-8 or by otherwise establishing an exemption.

Backup withholding is not an additional tax. Rather, the amount of any backup withholding generally will be allowed as a credit against a U.S. Holder's or a Non-U.S. Holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that certain required information is timely furnished to the IRS.

## **PRC Taxation**

### ***PRC Taxation of Our Overseas Shareholders***

Under the new Enterprise Income Tax Law and the Implementation Regulations, PRC income tax at the rate of 10% applies to dividends payable to investors that are "non-resident enterprises" (and that do not have an establishment or place of business in China, or that have such establishment or place of business but the relevant income is not effectively connected with such establishment or place of business) to the extent such dividends are sourced within China and the enterprise that distributes dividends is considered a "resident enterprise" in China. Therefore, if we are considered as a PRC tax resident enterprise for tax purposes, any dividends we pay to our overseas shareholders as well as gains realized by such shareholders from the transfer of our shares may be regarded as China-sourced income and as a result be subject to 10% PRC withholding tax. We intend to take the position that any dividends we pay to our overseas shareholders will not be subject to a withholding tax in the PRC.

## **F. Dividends and Paying Agents**

Not applicable.

## **G. Statement by Experts**

Not applicable.

## **H. Documents on Display**

Our corporate website is [www.chinametrorural.com](http://www.chinametrorural.com). We make available free of charge on or through our website our Annual Reports, current reports, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We may from time to time provide important disclosures to investors by posting them in the investor relations section of our website, as allowed by SEC rules. Information contained on our website is not part of this report or any other report filed with the SEC. You may read and copy any public reports we filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site <http://www.sec.gov> that contains reports, proxy and information statements, and other information that we filed electronically.

## **I. Subsidiary Information**

For a listing of our subsidiaries, see “*Item 4. Information on the Company—C. Organizational Structure.*” and Exhibit 8.1.

### **Item 11. Quantitative and Qualitative Disclosures About Market Risk.**

#### **Qualitative and Quantitative Disclosures About Market Risk**

We are exposed to various types of market risks in the normal course of business, including foreign exchange risk and interest rate risk. We have not in the past used derivatives to manage our exposure to interest rate risk or foreign exchange risk.

#### ***Foreign Exchange Risk***

We conduct our business primarily in Renminbi. In addition, our expenses are also primarily denominated in Renminbi, although a portion of expenses are denominated in foreign currencies, such as interest expense in Hong Kong dollars and United States dollars paid to lenders, salaries paid to staff in Hong Kong, marketing expenses for promotion in Hong Kong, rental expenses for our office space in Hong Kong and other general office expenses. However, our reporting currency is the Hong Kong dollar because the reporting currency of our major shareholders is the Hong Kong dollar. During fiscal year ended March 31, 2016, all of our revenues were denominated in Renminbi. During the same period, approximately 95.3% of our expenses (excluding tax) were denominated in Renminbi, approximately 1.7% were denominated in Hong Kong dollars and approximately 3.0% were denominated in U.S. dollars. Further, as of March 31, 2016, approximately 21.4% of our indebtedness (including trade payables, other payables and accruals) was denominated in Renminbi, approximately 56.0% was denominated in Hong Kong dollars and approximately 22.6% were denominated in U.S. dollars. We believe the impact of foreign currency risk is not material in our operations and we have not hedged our foreign currency exposures or entered into any other derivative financial instruments.

#### ***Interest Rate Risk***

We are exposed to interest rate risk due to fluctuations in interest rates on our debt and deposits. Our indebtedness consists of bank and other borrowings, a loan from a non-controlling interest and convertible bonds. As of March 31, 2016, we had HK\$464 million in bank borrowings that bore interest at floating rates ranging from 4.4% to 9.8% per annum and none that bore interest at fixed rates.

Additional increases in interest rates could potentially result in an increase in our cost of float rate borrowings, which could negatively affect our business and results of operations. The People’s Bank of China, or the PBOC, regulates the interest rates of our Renminbi-denominated borrowings. As of March 31, 2016, the current lending interest rate for one-to-three-year Renminbi loans was ranging from 4.4% to 9.8% per annum. The PBOC-published benchmark one-to-three-year lending rates in China as of March 31, 2016 were ranging from 4.4% to 4.8% per annum (2015: 5.4% to 5.8% per annum). Based on our borrowings as of March 31, 2016, we estimate that interest expense relating to our borrowings payable would increase by HK\$4.6 million on an annual basis in the event interest rates were to increase by 1.0% per annum assuming our borrowings could be adjusted annually.

We closely monitor interest rate risk and consider using appropriate financial instruments to hedge any exposure. However, we do not currently use any derivative instruments to manage our interest rate risk.

### **Item 12. Description of Securities Other Than Equity Securities.**

Not applicable.

## PART II

### Item 13. Defaults, Dividend Arrearages and Delinquencies.

Not applicable.

### Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

Not applicable.

### Item 15. Controls and Procedures.

#### Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) designed to provide reasonable assurance as to the reliability of our published financial statements and other disclosures included in our reports under the Securities and Exchange Act of 1934, as amended. In accordance with Rule 13a-15(b) of the Securities and Exchange Act of 1934, as amended, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Acting Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2016, the end of the period covered by this Annual Report. Based on such evaluation, management with the participation of the Chief Executive Officer and Acting Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2016 to ensure that information we are required to disclose under applicable laws and regulations is (1) recorded, processed, summarized and reported in a timely manner; and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. No change was made in our internal control over financial reporting during the fiscal year ended March 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our Chief Executive Officer and Chief Financial Officer do not expect that our disclosure controls or internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Further, the design of a control system must reflect the fact that there are resources constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdown can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

#### Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Internal control over financial reporting includes, among other things (i) maintaining records that are in reasonable detail and accurately and fairly reflect our transactions and dispositions of assets; (ii) providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements in accordance with generally accepted accounting principles; (iii) providing reasonable assurance that our receipts and expenditures are made in accordance with management authorization; and (iv) providing reasonable assurance that unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements is prevented or detected on a timely basis.

Under the supervision and with the participation of our management, including Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of the end of the fiscal year ended March 31, 2016 based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission using the criteria in *Internal-Control Integrated Framework (2013)*. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of March 31, 2016.

Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This Annual Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting due to final rules of the SEC with Release Nos. 33-9142 and 34-62914 for non-accelerated filers.

No change was made in our internal control over financial reporting during fiscal year ended March 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 16. [Reserved]**

**Item 16A. Audit Committee Financial Expert.**

The board of directors has, in its reasonable judgment, (1) determined that Mr. Wong Gee Hang, Henry is qualified as an “audit committee financial expert”, within the meaning of SEC regulations, that he has accounting and related financial management expertise within the meaning of the listing standards of the NYSE MKT and Rule 10A-3 under the Exchange Act, and (2) determined that Mr. Wong satisfies the definition of “independent” as established in the NYSE MKT corporate governance listing standards.

**Item 16B. Code of Business Conduct and Ethics.**

On July 11, 2011, the Board of Directors adopted a revised written Code of Business Conduct and Ethics for directors, officers and employees. The Code of Business Conduct and Ethics is available for review on the Company’s web site at [www.chinametrorural.com](http://www.chinametrorural.com) and a free copy will be made available upon request from the stockholders of the Company by sending the request to: China Metro-Rural Holdings Limited, Suite 2204, 22/F, Sun Life Tower, The Gateway, 15 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

**Item 16C. Principal Accountant Fees and Services.**

**Audit Fees**

Audit services of PricewaterhouseCoopers for fiscal year 2016 included the examination of the consolidated financial statements prepared in accordance with IFRS of the Company and its subsidiaries as of March 31, 2016 and March 31, 2015 and for the years ended March 31, 2016, 2015 and 2014, and services related to filings with the United States Securities and Exchange Commission and other regulatory bodies. The aggregate fees for professional services rendered by PricewaterhouseCoopers for fiscal year 2016, including the audit of the Company’s annual financial statements are approximately US\$602,564(HK\$4,700,000).

Audit services of PricewaterhouseCoopers for fiscal year 2015 included the examination of the consolidated financial statements prepared in accordance with IFRS of the Company and its subsidiaries as of March 31, 2015 and March 31, 2014 and for the years ended March 31, 2015, 2014 and 2013, and services related to filings with the United States Securities and Exchange Commission and other regulatory bodies. The aggregate fees for professional services rendered by PricewaterhouseCoopers for fiscal year ended March 31, 2015, including the audit of the Company’s annual financial statements are approximately US\$589,744 (HK\$4,600,000).

**Tax and Other Service Fees**

The Company and its subsidiaries have not engaged PricewaterhouseCoopers to perform other non-audit professional services for fiscal year 2015 or 2016. Neither the Company nor any of its subsidiaries have engaged PricewaterhouseCoopers as their principal accountant for tax compliance.

**Audit-Related Fees and All Other Fees**

The aggregate fees for audit-related or other fees to PricewaterhouseCoopers for fiscal year ended March 31, 2015 and 2016 are nil and nil, respectively.

**Item 16D. Exemptions From the Listing Standards for Audit Committees.**

We have not been granted an exemption from the applicable listing standards for the audit committee of our board of directors.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.**

None.

**Item 16F. Change in Registrant's Certifying Accountant.**

None.

**Item 16G. Corporate Governance.**

We are incorporated under the laws of British Virgin Islands. Our ordinary shares are listed on the NYSE MKT. Section 110 of the NYSE MKT Company Guide permits the NYSE MKT to consider the laws, customs and practices of foreign issuers in relaxing certain NYSE MKT listing criteria, and to grant exemptions from NYSE MKT listing criteria based on these considerations. A company seeking relief under these provisions is required to provide written certification from independent local counsel that the non-complying practice is not prohibited by home country law. A description of the significant ways in which our governance practices differ from those followed by domestic companies pursuant to NYSE MKT standards is as follows:

We are a foreign private issuer as defined in Rule 3b-4 under the Exchange Act. Therefore, we are permitted to follow the corporate governance practices in the British Virgin Islands in lieu of certain corporate governance requirements contained in the NYSE MKT company guide since the laws of the British Virgin Islands do not require compliance.

*Shareholder Approval Requirement:* Sections 711-713 of the NYSE MKT Company Guide require shareholder approval prior to an issuance of securities in connection with: (i) the acquisition of the stock or assets of another company; (ii) equity-based compensation of officers, directors, employees or consultants; (iii) a change of control; and (iv) private placements. Under the laws of the British Virgin Islands, we are not required to solicit shareholder approval of stock plans, including those in which our officers or directors may participate; stock issuances that will result in a change in control; the issuance of our stock in related party transactions or other transactions in which we may issue 20% or more of our outstanding shares; or, below market issuances of 20% or more of our outstanding shares to any person. However, it should be noted that under our Articles of Association, any Business Combination (as defined in our Articles of Association) with any Interested Shareholder (as defined in our Articles of Association) within a period of three years following the date the shareholder became such Interested Shareholder as described in Article 71 of our Articles of Association which may include any transaction which results in the issuance by the Company of any shares of the Company, the value of which is at least 5% or more of the aggregate market value of all the issued and outstanding voting shares of the Company to an Interested Shareholder or any affiliate or associate of the Interested Shareholder is (unless it comes within the exemptions set out in Article 71) required to be approved by shareholders other than the Interested Shareholder and its affiliate or associate.

*Board Independence Requirement:* Section 802(a) of the NYSE MKT Company Guide requires a board of directors with a majority of independent directors. Under the laws of the British Virgin Islands, we are not required to maintain a board of directors with a majority of independent directors and do not intend to voluntarily do so at this time.

*Shareholder Meeting Quorum Requirement:* The NYSE MKT minimum quorum requirement for a shareholder meeting is one-third of the outstanding shares of common stock. In addition, a company listed on NYSE MKT is required to state its quorum requirement in its bylaws. Our quorum requirement is set forth in our Articles of Association. A quorum for a meeting of members of the Company is two persons who are, or who represent by proxy, shareholders holding not less than one-third of the shares entitled to be voted at the meeting.

*Proxy Delivery Requirement:* NYSE MKT requires the solicitation of proxies and delivery of proxy statements for all shareholder meetings, and requires that these proxies shall be solicited pursuant to a proxy statement that conforms to SEC proxy rules. We are a foreign private issuer, and our equity securities are accordingly exempt from the proxy rules set forth in Sections 14(a), 14(b), 14(c) and 14(f) of the Exchange Act. We solicit proxies in accordance with our Articles and the applicable rules and regulations in the British Virgin Islands.

The foregoing is consistent with the laws, customs and practices in the British Virgin Islands.

In addition, we may from time-to-time seek relief from NYSE MKT corporate governance requirements on specific transactions under Section 110 of the NYSE MKT Company Guide by providing written certification from independent local counsel that the non-complying practice is not prohibited by our home country law, in which case, we shall make the disclosure of such transactions available on our website at [www.chinametrorural.com](http://www.chinametrorural.com). Information contained on our website is not part of this Annual Report.

**Item 16H. Mine Safety Disclosure**

Not Applicable.

### **PART III**

#### **Item 17. Financial Statements**

Our Audited Financial Statements as of March 31, 2016 and 2015 and for the years ended March 31, 2016, 2015 and 2014, including the notes thereto and together with auditor's report thereon, are included in this Annual Report beginning on page F-1.

#### **Item 18. Financial Statements**

Not Applicable.



**Item 19. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
1.1	Amended and Restated Memorandum of Association. <sup>1</sup>
1.2	Amended and Restated Articles of Association. <sup>2</sup>
4.1	Agreement and Plan of Dissolution and Liquidation as of July 24, 2009, between MSHI and Man Sang International (B.V.I.) Limited, an international business company incorporated under the International Business Companies Act of the British Virgin Islands and automatically re-registered under the BVI Business Companies Act, 2004. <sup>3</sup>
4.2	Agreement and Plan of Merger, dated February 19, 2010, by and among MSBVI, China Metro, Merger Sub, and Mr. Sio Kam Seng, as the representative of the shareholders of China Metro. <sup>4</sup>
4.10	Cooperative Framework Agreement between China Metro-Rural Development Limited and Dezhou Municipal Government dated July 17, 2010. <sup>5</sup>
4.23	Loan Contract between China Tieling Northeast and ICBC/China Merchant Bank dated June 6, 2012. <sup>15</sup>
4.24	Subscription Agreement for the Convertible Bonds dated July 24, 2012. <sup>6</sup>
4.25	Form of Terms and Conditions relating to the Convertible Bonds. <sup>7</sup>
4.26	Form of Warrant Instrument. <sup>8</sup>
4.27	Form of Registration Rights Agreement. <sup>9</sup>
4.28	Definitive Form of Subsidiary Guarantee. <sup>10</sup>
4.29	Subscription and Investor Rights Agreement relating to the PAG Bonds, dated July 24, 2012. <sup>11</sup>
4.30	Deed of Undertakings and Negative Pledge Agreement, dated July 24, 2012. <sup>12</sup>
4.31	Form of Terms and Conditions relating to the PAG Bonds. <sup>13</sup>
4.32	Form of Guarantee relating to the PAG Bonds. <sup>14</sup>
4.35	Sale and Purchase Agreement for the dispositions of HKCFC and Qiqihar CFC dated October 15, 2012. <sup>15</sup>
4.36	Loan Contract between China Dezhou Northeast and Bank of China dated October 24, 2012. <sup>15</sup>
4.37	Loan Contract between China Tieling Northeast and ICBC/China Merchant Bank dated October 25, 2012. <sup>15</sup>
4.39	Loan Agreements between China Metro-Rural Limited and independent third parties dated March 15, 2013. <sup>15</sup>
4.40	Loan Contract between China Hengyang Glorious and ICBC dated May 8, 2013. <sup>16</sup>
4.41	Loan Contract between China Dezhou Northeast and AVIC Trust Co., Ltd. dated June 21, 2013. <sup>16</sup>
4.42	Loan Contract between China Hengyang Glorious and ICBC dated June 26, 2013. <sup>16</sup>
4.43	Loan Contract between China Tieling Northeast and Bank of Tieling dated July 1, 2013. <sup>16</sup>
4.44	Loan Contract between China Tieling Northeast and Bank of Tieling dated October 24, 2013. <sup>16</sup>
4.47	Loan Contract between China Hengyang Glorious and ICBC dated November 21, 2013. <sup>16</sup>
4.48	Loan Agreement between China Metro-Rural Holdings Limited and an independent third party dated November 21, 2013. <sup>16</sup>
4.49	Form of 2016 Bond Certificate. <sup>16</sup>
4.50	Loan Contract between China Tieling Northeast and Bank of Tieling dated March 17, 2014. <sup>16</sup>
4.51	Loan Contract between Shenzhen Northeast Logistics City Co., Ltd. and an independent third party dated April 2, 2014. <sup>17</sup>
4.52	Loan Contract between Shenzhen Northeast Logistics City Co., Ltd. and an independent third party dated April 2, 2014. <sup>17</sup>
4.53	Loan Contract between Shenzhen Northeast Logistics City Co., Ltd. and an independent third party dated April 4, 2014. <sup>17</sup>
4.54	Loan Agreement between China Metro-Rural Holdings Limited and an independent third party dated April 8, 2014. <sup>17</sup>
4.55	Loan Contract between Shenzhen Northeast Logistics City Co., Ltd. and an independent third party dated April 10, 2014. <sup>17</sup>

- 4.56 Loan Contract between China Zhoukou Glorious Investments and ICBC dated May 4, 2014.<sup>17</sup>
- 4.57 Loan Contract between China Zhoukou Glorious Investments and Bank of China dated June 30, 2014.<sup>17</sup>
- 4.58 Entrusted Debt Investment Agreement between China Zhoukou Glorious Investments, BOC International (China) Limited and Bank of China dated June 30, 2014.<sup>17</sup>
- 4.59 Loan Contract between Tieling Shengtai Hotel Co., Ltd. and Tieling Xinxing Village Bank dated July 7, 2014.<sup>17</sup>
- 4.60 Loan Agreement between China Metro-Rural Holdings Limited and an independent third party dated August 7, 2014.<sup>17</sup>
- 4.61 Loan Agreement between China Metro-Rural Holdings Limited and Cheng Chung Hing dated September 19, 2014.<sup>17</sup>
- 4.62 Loan Agreement between China Metro-Rural Holdings Limited and Cheng Chung Hing dated September 22, 2014.<sup>17</sup>
- 4.63 Loan Agreement between China Metro-Rural Holdings Limited and an independent third party dated February 11, 2015.<sup>17</sup>
- 4.64 Loan Contract between China Tieling Northeast and Bank of Tieling dated March 12, 2015.<sup>17</sup>
- 4.65 Loan Agreement between China Metro-Rural Holdings Limited and Cheng Chung Hing dated April 1, 2015.
- 4.66 Loan Contract between China Hengyang Glorious and ICBC dated April 15, 2015.
- 4.67 Loan Contract between China Zhoukou Glorious Investments and Bank of China dated July 1, 2015.
- 4.68 Loan Agreement between China Metro-Rural Holdings Limited and Cheng Chung Hing dated August 4, 2015.
- 4.69 Loan Agreement between China Glorious City Holdings Limited and Cheng Chung Hing dated November 3, 2015.
- 4.70 Loan Agreement between China Metro-Rural Holdings Limited and Cheng Chung Hing dated January 20, 2016.
- 4.71 Loan Contract between China Nanyang Glorious and Bank of China dated March 25, 2016.
- 8.1 List of Subsidiaries.
- 12.1 Certification of Chief Executive Officer and Acting Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification of Chief Executive Officer and Acting Chief Financial Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 15.1 Consent of Valuation Firm.
- 15.2 Consent of Valuation Firm.

---

<sup>1</sup> Incorporated by reference to the registrant's Annual Report on Form 20-F filed on July 9, 2010.  
<sup>2</sup> Incorporated by reference to the registrant's Annual Report on Form 20-F filed on July 16, 2012.  
<sup>3</sup> Incorporated by reference to Annex A to the registrant's Registration Statement on Form F-4 (Registration No. 333-160777) filed with the SEC on July 24, 2009.  
<sup>4</sup> Incorporated by reference to Annex B to Exhibit 99.1 to the registrant's Form 6-K filed with the SEC on March 1, 2010.  
<sup>5</sup> Incorporated by reference to the registrant's Annual Report on Form 20-F filed on July 11, 2011.  
<sup>6</sup> Incorporated by reference to Exhibit 99.2 to the registrant's Form 6-K filed with the SEC on August 3, 2012.  
<sup>7</sup> Incorporated by reference to Exhibit 99.3 to the registrant's Form 6-K filed with the SEC on August 3, 2012.  
<sup>8</sup> Incorporated by reference to Exhibit 99.4 to the registrant's Form 6-K filed with the SEC on August 3, 2012.  
<sup>9</sup> Incorporated by reference to Exhibit 99.5 to the registrant's Form 6-K filed with the SEC on August 3, 2012.  
<sup>10</sup> Incorporated by reference to Exhibit 99.6 to the registrant's Form 6-K filed with the SEC on August 3, 2012.  
<sup>11</sup> Incorporated by reference to Exhibit 99.7 to the registrant's Form 6-K filed with the SEC on August 3, 2012.  
<sup>12</sup> Incorporated by reference to Exhibit 99.8 to the registrant's Form 6-K filed with the SEC on August 3, 2012.  
<sup>13</sup> Incorporated by reference to Exhibit 99.9 to the registrant's Form 6-K filed with the SEC on August 3, 2012.  
<sup>14</sup> Incorporated by reference to Exhibit 99.10 to the registrant's Form 6-K filed with the SEC on August 3, 2012.  
<sup>15</sup> Incorporated by reference to the registrant's Annual Report on Form 20-F filed on July 18, 2013.  
<sup>16</sup> Incorporated by reference to the registrant's Annual Report on Form 20-F filed on July 11, 2014.  
<sup>17</sup> Incorporated by reference to the registrant's Annual Report on Form 20-F filed on July 31, 2015.

## **SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

China Metro-Rural Holdings Limited

By: /s/ Sio Kam Seng

Sio Kam Seng

Chief Executive Officer

Date: August 1, 2016

**Consolidated Financial Statements**

**CHINA METRO-RURAL HOLDINGS  
LIMITED**

**as at March 31, 2016 and 2015  
and  
for the years ended March 31, 2016, 2015 and 2014**

## TABLE OF CONTENTS

	<u>Page</u>
<u>Report of Independent Registered Public Accounting Firm</u>	F-3
<u>Consolidated Income Statements for the years ended March 31, 2016, 2015 and 2014</u>	F-4
<u>Consolidated Statements of Comprehensive Income for the years ended March 31, 2016, 2015 and 2014</u>	F-5
<u>Consolidated Statements of Financial Position as at March 31, 2016 and 2015</u>	F-6
<u>Consolidated Statements of Cash Flows for the years ended March 31, 2016, 2015 and 2014</u>	F-8
<u>Consolidated Statements of Changes in Equity for the years ended March 31, 2016, 2015 and 2014</u>	F-10
<u>Notes to the Consolidated Financial Statements</u>	F-12

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and the Shareholders of  
**China Metro-Rural Holdings Limited**

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of income, of comprehensive income, of changes in equity and of cash flows present fairly, in all material respects, the financial position of China Metro-Rural Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) at March 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2016 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers  
Hong Kong  
August 1, 2016.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**CONSOLIDATED INCOME STATEMENTS**  
For the years ended March 31, 2016, 2015 and 2014

	Notes	2016 US\$'000 (Note 48)	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Revenue	7	28,316	220,866	1,400,753	387,016
Cost of sales	11	(4,093)	(31,927)	(817,112)	(133,105)
Gross profit		24,223	188,939	583,641	253,911
Other income, net	9	5,283	41,206	2,888	16,685
Other gains, net	10	34,399	268,311	40,584	101,412
Selling expenses	11	(7,019)	(54,754)	(35,304)	(31,171)
Administrative expenses	11	(51,075)	(398,386)	(252,334)	(154,948)
Operating profit		5,811	45,316	339,475	185,889
Finance income	13	199	1,554	14,057	27,410
Finance costs	13	(3,056)	(23,835)	(6,215)	(16,918)
Finance (costs)/income—net		(2,857)	(22,281)	7,842	10,492
Share of loss of an associate	23	(304)	(2,368)	(12,813)	(2,258)
Profit before income tax		2,650	20,667	334,504	194,123
Income tax expenses	14	(10,893)	(84,966)	(280,455)	(86,839)
<b>(Loss)/profit for the year</b>		<b>(8,243)</b>	<b>(64,299)</b>	<b>54,049</b>	<b>107,284</b>
Attributable to:					
Equity holders of the Company		(6,314)	(49,250)	61,246	104,331
Non-controlling interests		(1,929)	(15,049)	(7,197)	2,953
		<b>(8,243)</b>	<b>(64,299)</b>	<b>54,049</b>	<b>107,284</b>
<b>(Loss)/earnings per share attributable to ordinary share holders of the Company during the year</b>					
15					
Basic earnings per share		US\$ (0.09)	HK\$ (0.67)	HK\$ 0.83	HK\$ 1.42
Diluted (loss)/earnings per share		US\$ (0.16)	HK\$ (1.21)	HK\$ 0.04	HK\$ 0.18
Dividend (HK\$'000)	16	—	—	—	—

The notes on pages F-12 to F-77 are an integral part of these consolidated financial statements.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the years ended March 31, 2016, 2015 and 2014**

	<u>2016</u> <u>US\$'000</u> <u>(Note 48)</u>	<u>2016</u> <u>HK\$'000</u>	<u>2015</u> <u>HK\$'000</u>	<u>2014</u> <u>HK\$'000</u>
(Loss)/profit for the year	(8,243)	(64,299)	54,049	107,284
Other comprehensive income, net of tax:				
Item that will not be subsequently reclassified to income statement:				
Increase in fair values of leasehold land and buildings, net of deferred income tax	1,251	9,759	12,974	—
Item that may be subsequently reclassified to income statement:				
Exchange difference on translation of foreign operations	(15,538)	(121,196)	19,284	26,377
Item that was subsequently reclassified to income statement:				
Release of reserves upon deemed disposal of subsidiaries	(56)	(439)	—	—
Total comprehensive (loss)/income for the year	<u>(22,586)</u>	<u>(176,175)</u>	<u>86,307</u>	<u>133,661</u>
Total comprehensive (loss)/income for the year attributable to:				
Equity holders of the Company	(20,113)	(156,886)	92,042	129,164
Non-controlling interests	(2,473)	(19,289)	(5,735)	4,497
	<u>(22,586)</u>	<u>(176,175)</u>	<u>86,307</u>	<u>133,661</u>

The notes on pages F-12 to F-77 are an integral part of these consolidated financial statements.



**CHINA METRO-RURAL HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**As at March 31, 2016 and 2015**

	Notes	March 31, 2016 US\$'000 (Note 48)	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
<b>Non-current assets</b>				
Investment properties	17	76,100	593,578	633,544
Property, plant and equipment	19	39,132	305,229	312,560
Land use rights	20	5,123	39,956	57,489
Deposit for investment properties	11	—	—	12,694
Goodwill	21	118	919	919
Deposits for acquisition of land use rights	22	—	—	128,968
Trade and other receivables	28	356	2,777	—
Interest in an associate	23	1,137	8,865	11,840
Interests in joint ventures	24	24,928	194,438	7,466
Deferred income tax assets	25	16,059	125,258	9,777
		<u>162,953</u>	<u>1,271,020</u>	<u>1,175,257</u>
<b>Current assets</b>				
Completed properties held for sale	26	54,164	422,482	561,278
Properties under development	27	574,777	4,483,257	2,708,802
Land use rights	20	33,352	260,142	215,084
Deposits for acquisition of land use rights	22	7,986	62,289	201,417
Trade and other receivables	28	12,849	100,220	515,512
Due from joint ventures	46	53,151	414,578	—
Restricted and pledged bank deposits	29	6,162	48,065	150,640
Cash and cash equivalents	29	34,668	270,414	402,675
		<u>777,109</u>	<u>6,061,447</u>	<u>4,755,408</u>
Non-current asset held for sale	30(b)	1,684	13,136	—
		<u>778,793</u>	<u>6,074,583</u>	<u>4,755,408</u>
<b>Current liabilities</b>				
Trade payables, other payables and accruals	30	231,963	1,809,314	1,679,179
Receipt in advance	31	228,465	1,782,024	63,618
Current income tax liabilities		76,214	594,468	551,600
Derivative financial liabilities	32	13,715	106,974	250,257
Bank and other borrowings	33	91,955	717,246	621,695
Convertible bonds	34	27,263	212,655	607,482
Loans from a shareholder	46	20,513	160,000	—
		<u>690,088</u>	<u>5,382,681</u>	<u>3,773,831</u>
Net current assets		<u>88,705</u>	<u>691,902</u>	<u>981,577</u>
Total assets less current liabilities		<u>251,658</u>	<u>1,962,922</u>	<u>2,156,834</u>
<b>Non-current liabilities</b>				
Deferred income tax liabilities	25	11,767	91,781	95,592
Convertible bonds	34	67,197	524,133	—
Bank and other borrowings	33	—	—	528,059
Loans from a shareholder	46	7,051	55,000	65,000
Loan from a non-controlling interest of a subsidiary	46	7,538	58,800	58,800
		<u>93,553</u>	<u>729,714</u>	<u>747,451</u>
Net assets		<u>158,105</u>	<u>1,233,208</u>	<u>1,409,383</u>

The notes on pages F-12 to F-77 are an integral part of these consolidated financial statements.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION—(Continued)**  
**As at March 31, 2016 and 2015**

	<u>Notes</u>	<u>March 31, 2016 US\$'000 (Note 48)</u>	<u>March 31, 2016 HK\$'000</u>	<u>March 31, 2015 HK\$'000</u>
<b>Equity</b>				
<b>Equity attributable to equity holders of the Company</b>				
Share capital	35	73	573	573
Reserves		<u>157,052</u>	<u>1,224,991</u>	<u>1,381,877</u>
		157,125	1,225,564	1,382,450
<b>Non-controlling interests</b>	36	980	7,644	26,933
<b>Total equity</b>		<u>158,105</u>	<u>1,233,208</u>	<u>1,409,383</u>

The notes on pages F-12 to F-77 are an integral part of these consolidated financial statements.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the years ended March 31, 2016, 2015 and 2014**

	Notes	2016 US\$'000 (Note 48)	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
<b>Cash flows from operating activities</b>					
Profit before income tax		2,650	20,667	334,504	194,123
Adjustments for:					
Interest income	13	(199)	(1,554)	(14,057)	(27,410)
Interest expense	13	3,056	23,835	6,215	16,918
Depreciation of property, plant and equipment	19	4,003	31,224	26,459	10,067
Amortization of land use rights	20	751	5,856	6,488	3,096
Share of loss of an associate	23	304	2,368	12,813	2,258
Decrease/(increase) in fair values of investment properties	10	926	7,222	(4,252)	(18,296)
Decrease in fair values of warrants	10	(1,166)	(9,092)	(6,912)	(12,991)
Decrease in fair values of derivative components of convertible bonds	10	(17,204)	(134,191)	(55,098)	(74,894)
Loss on disposal of property, plant and equipment	10	1	7	504	—
Decrease in fair values of leasehold land and buildings	10	1,009	7,872	23,338	—
Provision for impairment of trade and other receivables	11	11,596	90,445	113,919	43,221
Provision for impairment of deposit for land use right	11	15,945	124,373	—	—
Provision for impairment of deposit for investment properties	11	1,569	12,241	—	2,426
Gain on deemed disposal of subsidiaries	10	(17,094)	(133,330)	—	—
Release of reserves upon deemed disposal of subsidiaries		(56)	(439)	—	—
Transaction costs related to the derivative components of convertible bonds		—	—	—	128
<b>Operating cash flows before movements in working capital</b>		6,091	47,504	443,921	138,646
Additions of properties under development		(111,108)	(866,644)	(1,335,873)	(361,432)
Additions of land use rights		(2,596)	(20,248)	(172,245)	(885,445)
Refunds of payments from acquisition of land use rights	20	45,869	357,781	288,163	571,800
Deposits paid for acquisition of land use rights		(156,206)	(1,218,404)	—	(665,289)
Decrease in completed properties held for sale		14,204	110,795	727,709	115,195
Decrease/(increase) in trade and other receivables		38,590	301,000	(280,404)	98,849
(Decrease)/increase in trade payables, other payables and accruals		(18,487)	(144,196)	931,859	196,716
Increase/(decrease) in receipt in advance		225,384	1,757,998	34,266	(10,005)
<b>Cash generated from/(used in) operations</b>		41,741	325,586	637,396	(800,965)
Interest received		267	2,081	2,772	13,974
Interest paid		(16,541)	(129,017)	(173,582)	(155,060)
Income tax paid		(16,689)	(130,173)	(65,875)	(7,937)
<b>Net cash generated from/(used in) operating activities</b>		8,778	68,477	400,711	(949,988)

The notes on pages F-12 to F-77 are an integral part of these consolidated financial statements.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)**  
**For the years ended March 31, 2016, 2015 and 2014**

	<u>Notes</u>	<u>2016</u> <u>US\$'000</u> <u>(Note 48)</u>	<u>2016</u> <u>HK\$'000</u>	<u>2015</u> <u>HK\$'000</u>	<u>2014</u> <u>HK\$'000</u>
<b>Cash flows from investing activities</b>					
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	41	—	—	1,481	—
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	42	(17)	(136)	—	—
Purchases of property, plant and equipment		(4,744)	(37,007)	(72,766)	(4,434)
Proceeds from disposal of property, plant and equipment		91	709	475	4
Government grant for investment properties	17	240	1,873	—	—
Additions to investment properties under construction	18	(531)	(4,138)	—	(10,542)
<b>Net cash used in investing activities</b>		<u>(4,961)</u>	<u>(38,699)</u>	<u>(70,810)</u>	<u>(14,972)</u>
<b>Cash flows from financing activities</b>					
Decrease/(increase) in restricted and pledged bank deposits		12,333	96,200	(98,868)	(1,022)
Proceeds from bank and other borrowings		47,082	367,242	700,895	888,504
Repayments of bank and other borrowings		(95,872)	(747,803)	(744,317)	(374,323)
Proceeds from loans from a shareholder	46	44,872	350,000	65,000	—
Repayment of loans from a shareholder	46	(25,641)	(200,000)	—	—
Proceeds from issuance of convertible bonds, net of direct expenses		—	—	—	233,648
<b>Net cash (used in)/generated from financing activities</b>		<u>(17,226)</u>	<u>(134,361)</u>	<u>(77,290)</u>	<u>746,807</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<u>(13,409)</u>	<u>(104,583)</u>	<u>252,611</u>	<u>(218,153)</u>
Cash and cash equivalents at beginning of the year		51,625	402,675	146,192	364,539
Effect of foreign exchange rate changes		(3,548)	(27,678)	3,872	(194)
<b>Cash and cash equivalents at end of the year</b>	29	<u>34,668</u>	<u>270,414</u>	<u>402,675</u>	<u>146,192</u>

The notes on pages F-12 to F-77 are an integral part of these consolidated financial statements.

CHINA METRO-RURAL HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended March 31, 2014, 2015 and 2016

	Attributable to equity holders of the Company								Non-controlling interests		Total equity
	Issued capital HK\$'000 Note (a)	Share premium HK\$'000	Property revaluation reserve HK\$'000	Accumulated translation reserve HK\$'000	Capital reserve HK\$'000 Note (b)	PRC statutory reserve HK\$'000 Note (c)	Retained profits HK\$'000	Sub-total HK\$'000			
Balance at April 1, 2013	573	1,175,233	—	—	93,344	(637,323)	114,393	415,024	1,161,244	28,171	1,189,415
Profit for the year	—	—	—	—	—	—	—	104,331	104,331	2,953	107,284
Other comprehensive income:											
Exchange difference on translation of foreign operations	—	—	—	24,833	—	—	—	—	24,833	1,544	26,377
Total comprehensive income for the year	—	—	—	24,833	—	—	—	104,331	129,164	4,497	133,661
Appropriation of profit to PRC statutory reserve	—	—	—	—	—	—	5,476	(5,476)	—	—	—
Balance at March 31, 2014 and at April 1, 2014	573	1,175,233	—	—	118,177	(637,323)	119,869	513,879	1,290,408	32,668	1,323,076
Profit/(loss) for the year	—	—	—	—	—	—	—	61,246	61,246	(7,197)	54,049
Other comprehensive income:											
Increase in fair values of leasehold land and buildings, net of deferred income tax	—	—	12,254	—	—	—	—	—	12,254	720	12,974
Exchange difference on translation of foreign operations	—	—	—	18,542	—	—	—	—	18,542	742	19,284
Total comprehensive income/(loss) for the year	—	—	12,254	18,542	—	—	—	61,246	92,042	(5,735)	86,307
Appropriation of profit to PRC statutory reserve	—	—	—	—	—	—	23,201	(23,201)	—	—	—
Balance at March 31, 2015 and at April 1, 2015	573	1,175,233	12,254	136,719	(637,323)	143,070	551,924	1,382,450	26,933	1,409,383	
Loss for the year	—	—	—	—	—	—	—	(49,250)	(49,250)	(15,049)	(64,299)
Other comprehensive income/(loss):											
Increase in fair values of leasehold land and buildings, net of deferred income tax	—	—	9,670	—	—	—	—	—	9,670	89	9,759
Exchange difference on translation of foreign operations	—	—	—	(116,867)	—	—	—	—	(116,867)	(4,329)	(121,196)
Release of reserves upon deemed disposal of subsidiaries (Note 42)	—	—	—	(439)	—	—	—	—	(439)	—	(439)
Total comprehensive income/(loss) for the year	—	—	9,670	(117,306)	—	—	—	(49,250)	(156,886)	(19,289)	(176,175)
Appropriation of profit to PRC statutory reserve	—	—	—	—	—	—	7,144	(7,144)	—	—	—
Balance at March 31, 2016	573	1,175,233	21,924	19,413	(637,323)	150,214	495,530	1,225,564	7,644	1,233,208	

The notes on pages F-12 to F-77 are an integral part of these consolidated financial statements.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY—(Continued)**  
**For the years ended March 31, 2014, 2015 and 2016**

---

**Note:**

- (a) Issued capital included ordinary shares of HK\$572,000 and preferred shares of HK\$1,000 as at March 31, 2015 and 2016.
- (b) Capital reserve as at March 31, 2015 and 2016 comprises (1) a deficit of HK\$703,648,000 arising from the merger with China Metro-Rural Limited (“China Metro”) resulted from a waiver of shareholders loans of HK\$300,000,000 and issue of 57,443,234 ordinary shares with an equivalent amount of HK\$1,003,648,000 which was recorded as a reduction of capital reserve (as detailed below); and (2) other capital reserve amounted HK\$66,325,000 arising from the corporate restructuring in 1997. In respect of the acquisition of the equity interest of China Metro which is further discussed in note 2(a) to the consolidated financial statements, an aggregate of 57,443,234 ordinary shares of the Company with an equivalent amount of HK\$1,003,648,000 was issued. Such issuance was recorded as a reduction of capital reserve while the par value of the issued shares amounted to HK\$448,000 was recorded as issued capital. The remaining amount between capital reserve and issued capital was recorded as share premium, net of 300,000 ordinary shares with a value of HK\$5,241,000 which was issued as the issuance cost in respect of the share issuance.
- (c) In accordance with PRC law and the articles of association of the relevant subsidiaries established in the PRC, the PRC subsidiaries may, upon the approval of the board of directors of the PRC subsidiaries, transfer certain of their net profit as stated in corresponding subsidiaries’ financial statements prepared under PRC accounting regulations to PRC statutory reserve. Such a transfer is not required when the amount of the PRC statutory reserve reaches 50% of the corresponding subsidiaries’ registered capital. The PRC statutory reserve shall only be used to make up losses of the corresponding subsidiaries’ production operations, or to increase the capital of the corresponding subsidiaries. Upon approval of the corresponding subsidiaries’ shareholders in general meetings, the subsidiaries may convert their PRC statutory reserve into registered capital and issue bonus capital to the existing owners in proportion to the existing ownership structure. In addition, this reserve is only distributable in the event of liquidation of these PRC subsidiaries.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1—General Information of China Metro-Rural Holdings Limited**

China Metro-Rural Holdings Limited (the “Company”, or “we” or “us” or “our”) was incorporated in the British Virgin Islands as an international business company under the BVI International Business Companies Act on August 14, 1995, and automatically re-registered as a business company on January 1, 2007 pursuant of the BVI Companies Act. The Company through its subsidiaries (collectively referred to as the “Group”) is principally engaged in the: 1) development and operations of large-scale and integrated agricultural logistics platforms, which include trade centers and other supporting facilities, in the People’s Republic of China (the “PRC”); and 2) rural-urban migration and city re-development business which comprise of the development and sales of residential and commercial properties and servicing and assignment of development rights to developers.

The shares of the Company are listed on the NYSE MKT under the ticker symbol of “CNR”. The Company’s principal place of business and executive office is located at Suite 2204, 22/F., Sun Life Tower, The Gateway, 15 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

The directors of the Company consider Kind United Holdings Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company of the Group.

The consolidated financial statements have been approved and authorized for issue by the Board of Directors on August 1, 2016.

**Note 2—Summary of Significant Accounting Policies**

***(a) Basis of preparation and presentation***

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial liabilities, investment properties, investment properties under construction and leasehold land and buildings, which are stated at fair value as explained in the accounting policies set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

The IASB has issued certain new and revised IFRS, which are generally effective for accounting periods beginning on or after April 1, 2015. Details of major changes in accounting policies following the adoption of these IFRSs are summarized in note 3 to the consolidated financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4 to the consolidated financial statements.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Reorganization transaction*

The Company was previously a wholly-owned subsidiary of Man Sang Holdings, Inc. (“MSHI”), a United States domestic company incorporated in the State of Nevada whose common stocks were listed on the NYSE MKT. On August 25, 2009, at a general meeting, for the purpose of the redomicile of MSHI and its subsidiaries (the “MSHI Group”) from the United States to the British Virgin Islands, the shareholders of MSHI resolved to carry out a group reorganization (the “Reorganization”) whereby, inter alia, MSHI was to be dissolved and liquidated and the Company was to become the new holding company of the MSHI Group and to contractually assume all rights, title, obligations and liabilities of MSHI pursuant to the terms and subject to the conditions of the agreement and plan of the dissolution and liquidation of MSHI. As a result of the Reorganization, the Company succeeded MSHI as the holding company of the MSHI Group on August 25, 2009 with its ordinary shares being listed on the NYSE MKT as a foreign private issuer. From its inception in August 1995 through the effective date of the Reorganization on August 25, 2009, the Company was a wholly-owned subsidiary of MSHI.

Upon the effective date of the Reorganization, the Group continued to conduct the business previously conducted by the MSHI Group (including the Company). Although the dissolution and liquidation of MSHI would result in the cessation of MSHI as the holding company of the MSHI Group, the dissolution and liquidation had no material impact on the Group’s financial condition or operating results, other than the costs incurred in connection with its dissolution and liquidation. As the Company shall contractually assume all rights, title, obligations and liabilities of MSHI upon the terms and subject to the conditions of the agreement and plan of the dissolution and liquidation, there was a continuation of the risks and benefits to the ultimate controlling owners that existed prior to the planned dissolution and liquidation of MSHI.

*Merger with China Metro*

Pursuant to an agreement and plan of merger, or the Merger Agreement, dated as of February 19, 2010, by and among the Company, China Metro-Rural Limited (“China Metro”) and Creative Gains Limited (“Creative Gains”) (a wholly-owned subsidiary of the Company), Creative Gains was merged with and into China Metro (the “Merger”). Immediately after the Merger, Creative Gains ceased and China Metro became a wholly-owned subsidiary of the Company. On March 19, 2010, the Merger Agreement was adopted and the Merger was subsequently consummated, such that each outstanding share of China Metro as of the effective date of the Merger was converted automatically into the right to receive the number of the Company’s ordinary shares equivalent to 57,443,234 divided by the number of China Metro ordinary shares outstanding immediately prior to the Merger. As a result, based on outstanding 100 ordinary shares of China Metro immediately prior to the Merger, an aggregate of 57,443,234 ordinary shares of the Company was issued in connection with the Merger (with cash paid for fractional shares), of which 37,338,104 ordinary shares were issued to Kind United Holdings Limited (“Kind United”), the controlling shareholder of China Metro under the control of Mr. Cheng Chung Hing (“Mr. Cheng”), and the remaining 20,105,130 ordinary shares of the Company were issued to the minority shareholders of China Metro.

In respect of the acquisition of the equity interest of China Metro controlled by Mr. Cheng, since both the Company and China Metro were under common control of Mr. Cheng prior to and after the Merger, the Merger was accounted for as a combination of entities under common control in a manner similar to pooling of interests. On this basis, the consolidated financial statements of the Company for periods prior to the Merger were restated to include, to the extent of the equity interest of China Metro held by Mr. Cheng, the assets and liabilities and results of operations of China Metro for those periods as if the Company had been the holding company of China Metro at the beginning of the financial period reported in the consolidated financial statements or when the Company and China Metro became under common control by Mr. Cheng, whichever was later, and all assets and liabilities of China Metro were stated at historical carrying amounts. The acquisition by the Company of interest owned by all the shareholders of China Metro, including Mr. Cheng, was treated as an equity transaction at the completion date of the Merger.



**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***(b) Basis of consolidation***

Business combinations (other than for combining entities under common control) are accounted for by applying the acquisition method. This involves the fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiaries, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiaries prior to acquisition. On initial recognition, the assets and liabilities of the subsidiaries are included in the consolidated statements of financial position at their fair values, which are also used as the basis for subsequent measurement in accordance with the Group's accounting policies.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total consideration transferred, non-controlling interest recognized and previously held interest is less than the fair value of the net assets of the subsidiary acquired in the case of bargain purchase, the difference is recognized directly in the consolidated income statement.

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to March 31 each year. A subsidiary is an entity (including a structured entity) over which the Group has control.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposals, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Non-controlling interests in the net assets consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination.

The Group treats transactions with non-controlling interest as transactions with equity owners of the Group. For purchases from non-controlling interest, the differences between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interest are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that the amounts previously recognized in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***(c) Subsidiaries***

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

***(d) Associates***

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale (in which case it is accounted for under IFRS 5). Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of loss of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that if the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

***(e) Joint arrangements***

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***(f) Related parties***

A related party transaction is a transfer of resources, services or obligations between the Group and a related party of the Group, regardless of whether a price is charged.

- (i) A person, or a close member of that person's family, is related to the Group if that person:
  - has control or joint control over the Group;
  - has significant influence over the Group; or
  - is a member of the key management personnel of the Group or the Group's parent.
- (ii) An entity is related to the Group if any of the following conditions applies:
  - has control or joint control over the Group;
  - The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - Both entities are joint ventures of the same third party.
  - One entity is a joint venture of a third entity and the other entity is an associate of the third party.
  - The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - The entity is controlled or jointly controlled by a person identified in (i) above.
  - A person, or a close member of that person's family, who has control or joint control over the Group 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).

***(g) Investment properties***

Investment properties are land and/or buildings that are held to earn rental income and/or for capital appreciation, which include property interest held under operating lease carried at fair value. Land held under operating leases is accounted for as investment property when the rest of the definition of an investment property is met.

Investment properties are stated at fair value at the consolidated statement of financial position date. Any gain or loss arising from a change in fair value is recognized in the consolidated income statement. An investment property is derecognized upon disposals or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognized.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

Properties under construction or development for future use as investment properties are classified as investment properties under construction. Such properties under construction are measured initially at cost, including transaction cost, and stated at fair value, subsequent to initial recognition, at the end of each reporting period when fair value can be determined reliably. Any gains or losses arising from changes in the fair values of completed investment properties and investment properties under construction are included in the consolidated income statement in the year in which they arise.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The fair values of investment properties are determined by management based in part on valuation by independent valuers who hold recognized professional qualifications and have recent experiences in the locations and category of properties being valued. Fair value is determined based on market value, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

If investment properties and/or investment properties under construction become owner-occupied, they are reclassified as property, plant and equipment under leasehold land and building, or if become intended for sale are transferred to properties under development or completed properties held for sale, and their fair value at the date of reclassification becomes their deemed cost for accounting purposes.

***(h) Property, plant and equipment***

Property, plant and equipment, other than leasehold land and buildings, are stated at cost less accumulated depreciation and accumulated impairment losses.

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. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the year in which they are incurred.

The leasehold land and buildings are stated in the consolidated statements of financial position at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the statement of financial position date. Any revaluation increase is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in the net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

If there is no market-based evidence of fair value because of the specialized nature of the item of leasehold land and buildings and the item is rarely sold, the Group may estimate fair value using an income or a depreciated replacement cost approach.

Construction-in-progress is stated at historical cost, and includes construction expenditures incurred and other direct costs capitalized during the construction period, less accumulated impairment losses, if any. No depreciation is provided in respect of construction-in-progress until the construction is completed. On completion, the construction-in-progress is transferred to appropriate categories of property, plant and equipment.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Leasehold land outside of Hong Kong is recognized in accordance with the Group's policies in note 2(k) to the consolidated financial statements. Amortization on leasehold land in Hong Kong classified as finance lease and depreciation for property, plant and equipment, other than construction in progress, are calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold land classified as finance lease and buildings	Over the shorter of the term of the lease or 20 years
Leasehold improvements	33%
Plant and machinery	10%
Furniture, fixtures and equipment	20%—33%
Motor vehicles	10%—25%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Residual values, useful lives and depreciation methods are reviewed at each consolidated statement of financial position date.

An item of property, plant and equipment is derecognized upon disposals or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognized.

***(i) Properties under development***

Property that is being constructed or developed for future use as held-for-sale is classified as properties under development and stated at lower of costs and net realisable value until construction or development is complete, at which time it is reclassified as completed properties held for sale. Costs comprise construction costs, borrowing costs capitalized, costs of land use rights, amortization of land use rights and professional fees incurred during the development period. If properties under construction become owner-occupied, they are reclassified as property, plant and equipment under leasehold land and buildings and stated at cost less any identified impairment losses for accounting purposes.

Properties under development are classified as current assets when the construction of the relevant properties commences unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle.

***(j) Completed properties held for sale***

Completed properties remained unsold at the end of the year are stated at the lower of cost, net realisable value and deemed cost.

Cost comprises development costs attributable to the unsold properties.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing marketing conditions.

If investment properties and/or investment properties under construction become properties held for sale, they are reclassified as completed properties held for sale and their fair value at the date of reclassification becomes their deemed cost for accounting purpose.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***(k) Land use rights***

Land use rights include up-front payments to acquire land and payments for lease of properties held under operating leases. Land use rights are stated at cost and are amortized on a straight-line basis over the period of the lease and the related amortization expense is charged to administrative expenses. Land use rights are reclassified as properties under development or investment properties under construction when the corresponding properties are ready to be constructed. Amortization of land use rights during construction period are capitalized as part of the costs of properties under development or investment properties under construction.

***(l) Goodwill***

Goodwill arising on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (“CGUs”), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

***(m) Financial instruments***

Financial assets and financial liabilities are recognized on the consolidated statements of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

***Financial assets***

The Group’s financial assets are classified into one of the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

***Effective interest method***

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each consolidated statement of financial position date subsequent to initial recognition, loans and receivables (including trade receivables, loan receivables and other receivables) are carried at amortized cost using the effective interest method, less any identified impairment losses.

*Compound financial instruments*

Compound financial instruments issued by the Company comprise convertible bonds that can be converted into share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The derivative component of the convertible bonds is recognized initially at fair value. The liability component is recognized initially at the difference between the fair value of the convertible bonds as a whole and the fair value of the derivative component. Any directly attributable transaction costs are allocated to the derivative financial liability and the liability components in proportion to their initial carrying amounts.

*Impairment of financial assets*

At each statement of financial position date, financial assets other than those carried at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the debtor will enter bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated income statement to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in consolidated income statement of the period in which the reversal occurs.

*Financial liabilities and equity*

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value at profit or loss and other financial liabilities.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

*Derivative financial liabilities*

Derivative financial liabilities are subsequently measured at fair value through profit or loss and any gains or losses derived from its changes in fair values are recognized in the consolidated income statement unless the derivative financial liabilities are qualified for hedge accounting. Transaction costs attributable to the issue of derivative financial instruments are charged to the consolidated income statement during the period in which they are incurred.

*Other financial liabilities*

Other financial liabilities (including bank and other borrowings, trade payables and other payables) are subsequently measured at amortized cost, using the effective interest method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

*Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 'Revenue'.

*Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

*Derecognition*

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in the consolidated income statement. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.



**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***(n) Impairment of non-financial assets***

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

***(o) Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions.

Restricted bank deposits are not included as cash and cash equivalents.

***(p) Provisions, contingent liabilities and contingent assets***

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the statement of financial position date, and are discounted to present value where the effect is material.

***(q) Revenue recognition***

*Revenue from sales of properties*

Revenue from sales of properties is recognized when the risks and rewards related to the properties are transferred to purchasers, which is when the construction of relevant properties has been completed, title to the properties has been delivered to the purchasers and collectability of related receivables is reasonably assured. Revenue is recognized only when collectability of such receivable is reasonably assured. Deposits and installments received on properties sold prior to the date of revenue recognition are included in the statements of financial position under current liabilities

*Revenue from sales of properties with operating leaseback*

As part of the Group's overall strategy to develop property projects with specific themes, in relation to sales of certain properties, immediately following sale of such properties, the Group leases back the properties from purchasers for periods of 2 to 3 years either for an insignificant amount of rental payments or free of charge. As lease back of the properties for an insignificant amount of rental payments or free of charge was arranged as part of the sale of these properties, the Group determined the fair value of lease payments it would ordinarily make to lease such properties from other independent owners based on factors such as expected occupancy rates, rental yields etc. and included it as part of the sales consideration received with a corresponding debit to prepaid operating lease payments. However, since the fair value of lease payments the Group would ordinarily make to lease such properties was estimated to be insignificant, the Group did not separately recognize it as part of the sales consideration received with a corresponding debit to prepaid operating lease payments. Such transactions are accounted for as a sale and operating leaseback given that as part of the sale transaction, the Group disposes of substantially all risks and rewards of owning the property. In concluding that substantially all risks and rewards of owning the property have been transferred, the Group considers the short period of the lease and the expected future rentals it could earn by letting out these properties, which are insignificant relative to the value of the property.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The leaseback is considered as an operating lease due to (i) the ownership of the property will not transfer back to the Group by the end of the lease term; (ii) the Group does not have the option to purchase the property at the end of the lease term; (iii) the lease term is not the major part of the economic life of the property; (iv) at the inception of the lease, the fair value of the property is significantly higher than the present value of the minimum lease payments; and (v) any gains or losses from the fluctuation in the fair value of the property rest with the purchasers. In addition, operating leases rentals paid to purchasers are recorded as an expense on a straight line basis over the period of the lease.

*Revenue from servicing and assignments of development rights*

In its rural-urban migration and city re-development business, the Company develops and sells residential, commercial and other auxiliary properties as well as services and assigns the development rights to independent third party developers on portions of land plots that have already been designated by the local government under the framework agreement for development by such independent third parties.

In order for the independent third party developers to acquire land use rights within the land plots that have already been designated by the local government under the framework agreement, the Company is required to provide certain services by liaising between the local government and the independent third party developers to ensure the independent third party developers are able to secure the land use rights at a certain price. Once the independent third party developers have successfully secured the land use rights and the collectability of the related receivables is reasonably assured, the Company would recognize the related revenue for the services performed.

*Revenue from leasing of investment properties*

Rental income under operating leases is recognized in the period in which the properties are let out and on a straight-line basis over the term of the relevant lease, including the rent-free periods.

*Revenue from property management services*

Revenue from property management service is recognized when services are rendered.

*Hotel income*

Hotel revenue from room rental and other ancillary services is recognized when the services are rendered.

*Others*

Interest income from a financial asset is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognized when the rights to receive payments have been established.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***(r) Segment reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the board that make strategic decision.

***(s) Share-based payments***

The Group operates a number of equity-settled, share based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted. In determining the fair value of the options granted:

- market performance conditions are taken into considerations;
- the impact of any service and non-market vesting conditions (for example, profitability, sales growth targets and remaining employee of the entity over a specified time period) is excluded; and
- the impact of any non-vesting conditions is included.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on non-market vesting conditions and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

The cash subscribed for the shares issued when the options are exercised is credited to share capital (nominal value) and share premium, net of any transaction costs that are directly attributable to the issue.

At the time when the share options are exercised, the amount previously recognized in share option reserve will be transferred to share premium. When the share options are not exercised at the expiry date or are forfeited after vesting period, the amount previously recognized in share option reserve will be transferred to retained profits.

No share option has been granted under the plans.

***(t) Foreign currency translation***

*Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

*Transaction and balances*

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are translated and recorded in the respective entity's functional currency at the rates of exchanges prevailing on the dates of the transactions. At each statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which cases, such exchange differences are recognized in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which case, the exchange differences are also recognized directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the statement of financial position date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized in the consolidated income statement in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the statement of financial position date. Exchange differences arising are recognized in the translation reserve.

***(u) Taxation***

Income tax expense comprises current and deferred income tax.

Current income tax is calculated based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are not taxable or deductible. Current income tax payable is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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 tax assets and liabilities relate to income taxes levied by the same tax authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***(v) Operating leases***

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable and receivable under operating leases are recognized as expense and revenue on the straight-line basis over the lease terms.

***(w) Retirement benefits scheme***

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the statement of financial position date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

In accordance with the rules and regulations in the PRC, the PRC based employees of the Company's subsidiaries in the PRC participate in various defined contribution retirement benefit plans organized by the relevant municipal and provincial governments in the PRC under which the Company's subsidiaries in the PRC and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, ranging from 10% to 15% of the average basic salary of the PRC based employees.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administered funds managed by the PRC government.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ('MPF Scheme'), which is a defined contribution retirement scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement schemes are expensed as earned.

***(x) Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, including properties under development and investment properties under construction, are capitalized as part of the cost of those assets. Capitalization 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 eligible for capitalization. All other borrowing costs are recognized in the consolidated income statement in the period in which they are incurred.

***(y) Government grants***

Grants from government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are recognized as income over the periods necessary to match with the related costs. If the grants do not relate to any specific expenditure incurred by the Group, they are reported separately as other operating income. If the grants subsidize an expense incurred by the Group, they are deducted in reporting the related expenses. Grants related to assets are presented as a deduction from the cost of the relevant asset.

***(z) Non-current assets held-for-sale***

Non-current assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets are stated at lower of carrying amount and fair value less cost to sell.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 3—Application of New and Revised International Financial Reporting Standards**

***(a) Adoption of new or revised IFRS***

In the current year, the Group has adopted the following revised IFRS, which are relevant to its operations:

- Amendments to IAS 19 (2011), ‘Defined Benefit Plans: Employee Contributions’
- Annual Improvements to IFRSs 2010-2012
- Annual Improvements to IFRSs 2011-2013

The adoption of these newly effective amendments to existing standards does not have significant impact to the Group’s accounting policies or financial results.

***(b) New or revised standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Group***

The following new or revised standards, interpretations and amendments to existing standards have been published by the IASB and are relevant to the Group’s operations. They are not yet effective for accounting periods beginning on April 1, 2015 and have not been early adopted by the Group.

		<b>Effective for accounting periods beginning on or after</b>
Amendments to IAS 1	Disclosure Initiative	January 1, 2016
Amendments to IAS 16 and 38	Clarification of Acceptable Methods of Depreciation and Amortisation	January 1, 2016
Amendments to IAS 16 and 41	Agriculture: Bearer Plants	January 1, 2016
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016
IFRS 14	Regulatory Deferral Accounts	January 1, 2016
Amendments to IAS 27	Equity Method in Separate Financial Statements	January 1, 2016
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	January 1, 2016
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014	January 1, 2016
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception	January 1, 2016
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
IFRS 9	Financial Instruments	January 1, 2018
IFRS 16	Leases	January 1, 2019

The Group has already commenced an assessment of the related impact of adopting the above new or revised standards and amendments to standards, but it is not yet in a position to state whether they will have a significant impact on its results of operations and financial position. The Group plans to adopt these new or revised standards and amendments to standards when they become effective.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 4—Critical Accounting Estimates and Judgment**

In the application of the Group's accounting policies, which are described in note 2, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

*Estimated useful lives of property, plant and equipment*

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

*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 judgment. 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 portions 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 these portions separately. If the portions could not be sold separately, the property is an investment property.

Judgment 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.

*Classification between investment properties and properties held for sale*

The Group develops properties held to earn rentals and/or for capital appreciation and properties held for sale. Judgment is made by management on determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention for holding the properties at the development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development if the properties are intended for sale after its completion, whereas, the properties are accounted for as investment properties under construction if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties held for sale and are stated at the lower of cost and net realisable value, while the properties held to earn rentals and/or for capital appreciation are transferred to completed investment properties. Investment properties, both under construction and completed, are stated at fair value (where fair value can be reliably measured) and subject to revaluation at the end of each reporting period.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Fair value of leasehold land and buildings and investment properties*

The leasehold land and buildings and investment properties of the Group are stated at fair value in accordance with the Group's accounting policies stated in note 2(g) and 2(h) respectively. The fair value of investment properties, investment properties under construction, and leasehold land and buildings are determined by management based on valuation by independent professional valuers, and the fair values of investment properties, investment properties under construction and leasehold land and buildings are set out in notes 17, 18 and 19 to the consolidated financial statements respectively.

The valuation is based upon assumptions including estimated rental values, future rental income, and appropriate discount rates. The valuers also make reference to current prices in an active market for the properties with similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgment, the Group considers information from a variety of sources including:

- (i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences, by reference to independent valuations; and
- (ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices, by reference to independent valuations.

In the case of investment properties under construction, their fair value reflects the expectations of market participants of the value of the properties when they are completed, less deductions for the costs required to complete the projects and appropriate adjustments for profit and risk. The valuation and all key assumptions used in the valuation should reflect market conditions at the statement of financial position date. The key assumptions include value of completed properties, period of development, outstanding construction costs, other professional costs, risk associated with completing the projects and generating income after completion and investors' return as a percentage of value or cost. The fair value is made by reference to independent valuation.

In making the judgment, reasonable consideration has been given to the underlying assumptions based on market conditions existing at the statement of financial position date. These estimates are regularly compared to actual market data and actual transactions in the market.

*Impairment of trade receivables*

The Group's management determines the provision for impairment of trade receivables on a regular basis. This estimate is based on the credit history of its customers and prevailing market conditions. Management reassesses the provision for impairment of trade receivables at the statement of financial position date. In respect of the trade receivables past due but not impaired, majority of which are related to sales of properties in the PRC, for which it takes longer than normally required for customers to apply for mortgages in the locations at which the Company's subsidiaries operated. As most of these mortgages were approved by banks and balances settled subsequent to the date of statement of financial position and additional resources have been invested to monitor the progress of mortgage application, management considered that these receivables are fully recoverable.



**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Recoverability of completed properties held for sale and properties under development*

Management performs a regular review on the carrying amounts of completed properties held for sale and properties under development. Based on management's review, write-down of completed properties held for sale and properties under development will be made when the estimated net realisable value has declined below the carrying amount. In determining the net realisable value of completed properties held for sale and properties under development, management refers to the latest economic measures introduced by the local government, recent global and local economic developments, recent sales transactions of the Group and other similar properties in the surrounding areas, marketability of the Group's existing properties, market survey reports available from independent property valuers, internally available information and management's expectation on future sales.

*Impairment of long-lived assets*

The Group conducts impairment reviews of assets when events or changes in circumstances indicate that their carrying amounts may not be recoverable or annually in accordance with relevant accounting standards. An impairment loss is recognized when the carrying amount of an asset is lower than the greater of its fair value less costs to sell or value in use. In determining the value in use, management assesses the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Estimates and judgments are applied in determining these future cash flows and other assumptions including the discount rate. Provision for impairment of deposit for land use right and deposit for investment properties during the year ended March 31, 2016 are set out in Note 11 and 22 to the consolidated financial statements.

*Fair value of convertible bonds*

The fair value of convertible bonds are determined using valuation techniques including reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

*Fair value of derivative financial instruments*

The Group has issued certain warrants and convertible bonds where derivative financial liability components are classified as derivative financial liabilities. These warrants and derivative financial liability component of convertible bonds are determined by way of valuation technique or external valuation which requires subjective assumptions that are mainly based on performance conditions of the Group. The key assumptions are made by reference to the nature of the warrants and convertible bonds, share price of the trading securities, their conversion prices, implied volatility of their underlying trading securities and their exercise periods. Should the price of the underlying trading securities of these warrants be increased or decreased by 1% (2015: 1%), the impact on profit or loss would be a loss of HK\$204,000 (2015: HK\$305,000) and a gain of HK\$204,000 (2015: HK\$305,000), respectively. Should the price of the underlying trading securities of the convertible bonds is to be increased or decreased by 1% (2015: 1%), the impact on profit or loss would be a loss of HK\$1,905,000 (2015: HK\$7,280,000) and a gain of HK\$1,905,000 (2015: HK\$2,404,000), respectively.

*PRC land appreciation taxes*

The Group is subject to land appreciation taxes in the PRC. The provision of land appreciation taxes is based on management's best estimates according to the understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual land appreciation tax liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalized its land appreciation tax calculations and payments with the tax authorities for certain property development projects. The final outcome might be different from the amounts that were initially recorded, and any differences will impact the land appreciation tax expenses and the related provision in the period in which the differences realize. Further details are set out in note 14 to the consolidated financial statements.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Current and deferred income taxes*

The Group is subject to income taxes in the PRC. Significant judgment is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and income tax expense in the period in which such estimate is changed. As at March 31, 2016 and 2015, management recognized certain deferred tax assets on tax losses incurred by certain of the Group's subsidiaries as management considered future taxable profits of these subsidiaries where losses were incurred were probable.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. As at March 31, 2016 and 2015, management did not recognize any deferred income tax liability with respect to these temporary differences as management considered these temporary differences would not be reversed in the foreseeable future.

*Recognition and allocation of construction cost on properties under development*

Development costs of properties are recorded as properties under development during construction stage and will be transferred to completed properties held for sale upon completion. Apportionment of these costs will be recognized in the consolidated income statement upon the recognition of the sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate.

When developing properties, the Group may divide the development projects into phases. Specific costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to phases are allocated to individual phases based on the estimated saleable area of the entire project. Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years. Further details are set out in note 27 to the consolidated financial statements.

*Government grant*

Government grants are recognized as income over the periods necessary to match with the related costs. The Group generally receives two types of government grants from the local governments. Some government grants are received throughout the development of the integrated agricultural logistic and trade centers and the rural-urban migration and city re-development as recognition of the Group's contribution to the local communities. The Group considers such grants generally relate to properties successfully completed and sold and would recognize such grants separately as other operating income in the period of receipt as there are no conditions attached to the grants. For the government grants related to the land use rights, the Group would deduct the grants received from the land use rights as they are granted with respect to the costs incurred by the Group in acquiring the related land use rights.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 5—Capital Risk Management**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the bank and other borrowings and equity balances.

The capital structure of the Group consists of net debt and equity attributable to equity holders of the Company, comprising issued share capital, share premium, retained earnings and other reserves.

The management of the Group reviews the capital structure periodically. As part of this review, the management of the Group considers costs of capital, its covenant obligations on the borrowings as discussed in note 33, and the risks associated with issued share capital and will balance its overall capital structure through the drawdown of bank and other borrowings, the repayment of existing bank and other borrowings or the adjustment of dividend policy.

The management of the Group monitors its capital structure on the basis of net debt. Net debt is set out as follows:

	2016 HK\$'000	2015 HK\$'000
Bank and other borrowings	717,246	1,149,754
Loans from a shareholder	215,000	65,000
Loans from a non-controlling interest of a subsidiary	58,800	58,800
Convertible bonds	736,788	607,482
Restricted and pledged bank deposits	(48,065)	(150,640)
Cash and cash equivalents	(270,414)	(402,675)
Net debt	<u>1,409,355</u>	<u>1,327,721</u>

**Note 6—Financial Risk Management**

The Group's major financial instruments include trade and other receivables, restricted and pledged bank deposits, cash and cash equivalents, trade and other payables, derivative financial liabilities, bank and other borrowings, convertible bonds and loans from a shareholder and a non-controlling interest. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk, and the policies on how to mitigate these risks are set out below. The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyze and formulate measures to manage the Group's exposure to different risks arising from the use of financial instruments. Generally, the Group employs conservative strategies regarding its risk management. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**(a) Market risk**

**(i) Currency risk**

Currency risk arises when recognized assets and liabilities are denominated in a currency other than the functional currency of the Group's entities to which they relate. The Group's assets, liabilities and transactions are principally denominated in RMB and HK\$, which are also the functional currency of the Group's entities to which these balances relate. In addition, the Group has certain assets, liabilities and transactions denominated in US\$. Given the exchange rate is pegged between HK\$ and US\$, it is not foreseen that the Group will be exposed to significant exchange risk of US\$. Accordingly, risk that the Group is subject to foreign currency risk at March 31, 2015 and 2016 is minimal.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*(ii) Interest rate risk*

The Group's exposure to interest rate risk relates primarily to variable-rate bank borrowings of HK\$464,023,000 (2015: HK\$626,436,000) which were denominated in RMB, fixed-rate convertible bonds of HK\$736,788,000 (2015: HK\$607,482,000) which were denominated in US\$ and fixed-rate other borrowings of HK\$35,000,000 (2015: HK\$93,000,000) and HK\$218,223,000 (2015: HK\$430,318,000) which were dominated in HK\$ and RMB, respectively, and fixed-rate shareholder loans of HK\$215,000,000 (2015: HK\$65,000,000) which were denominated in HK\$. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rate expose the Group to fair value interest rate risk. It is the Group's policy to keep the majority of borrowings at floating interest rate whenever possible so as to minimize the fair value interest rate risk. However, subject to the Group's working capital requirements and the availability of variable-rate bank borrowings, the Group may have to obtain borrowings with fixed interest rate.

The tenure of the fixed-rate bank and other borrowings and fixed-rate shareholder loans ranges from one to two years. The management considers the fair value interest rate risk was insignificant. The liquidity risk on repayment of the bank and other borrowings and fixed-rate shareholder loans is detailed in note 6(c) to the consolidated financial statements.

At March 31, 2016, if interest rates had been 0.25% (2015: 0.25%) higher/lower with all other variables held constant, interest payment on floating rate borrowings would have been approximately HK\$1,160,000 (2015: HK\$1,566,000) higher/lower. Post-tax loss (2015: Post-tax profit) for the year would have been approximately HK\$1,944,000 (2015: HK\$1,683,000) higher/lower (2015: lower/higher) mainly as a result of an increase/decrease in the fair value of fixed rate borrowings. Since a majority of the interest expenses would be capitalized and as such interest expenses of these borrowings are directly attributable to the property construction, the management does not anticipate any significant impact on profit or loss of the Group resulting from changes in interest rate on floating rate borrowings.

*(b) Credit risk*

Credit risk mainly arises from trade and other receivables, restricted and pledged bank deposits and cash and cash equivalents.

In respect of restricted and pledged bank deposits and cash and cash equivalents, the Group will place cash in banks and financial institutions with high credit ratings assigned by international credit-rating agencies.

Most of the Group's customers do not have independent rating. Before accepting certain new customers, where available at reasonable cost, the Group obtains credit reports from commercial information provider to assess the potential customer's credit and defines credit limits by customer. Credit limits of customers are reviewed periodically. In order to minimize the credit risk, the management of the Group has established credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. For the trade receivables arising from sales of properties, the Group managed the credit risk by fully receiving cash upon sale of properties or ensuring purchasers' mortgage loans financing procedures are being arranged unless strong credit records of the customers could be established. The Group has policies in place to ensure that sales are made to purchasers with an appropriate financial strength and appropriate percentage of down payments. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment provisions are made for irrecoverable amounts. The Group has no significant concentrations of credit risk, with exposure spreading over a number of counterparties and customers.

For all trade receivables in connection with sales of properties, the Group has the right to repossess the properties when the repayments of trade receivables in respect of properties sales are in default. This arrangement has mitigated the credit risk for those customers which cannot be assessed through our past experience and other factors to prove their credit standing.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(c) Liquidity risk**

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank and other borrowings and ensures compliance with loan covenants.

As at March 31, 2016 and 2015, the Group's financial liabilities which have contractual maturities are summarized below:

	March 31, 2016		March 31, 2015	
	Current within one year HK\$'000	Non-current after one but within two years HK\$'000	Current within one year HK\$'000	Non-current after one but within two years HK\$'000
Trade and other payables	1,268,898	—	1,614,287	—
Bank and other borrowings	717,246	—	621,695	528,059
Loans from a shareholder	160,000	55,000	—	65,000
Convertible bonds	234,000	468,000	702,000	—
Interest obligations	124,675	276,393	161,177	12,409
	<u>2,504,819</u>	<u>799,393</u>	<u>3,099,159</u>	<u>605,468</u>

**(d) Fair value estimation**

The financial instruments carried at fair values by valuation method which are categorized into different category levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at March 31, 2016, the Group's derivative financial instruments, including warrants and derivative financial liability components of the convertible bonds, were valued at HK\$8,370,000 (2015: HK\$17,462,000) and HK\$98,604,000 (2015: HK\$232,795,000), respectively. The fair value of the warrants and derivative financial liability components of the convertible bonds that are not traded in an active market is determined by way of valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates, which include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis, and option pricing models. As one or more of the significant inputs is not based on observable market data, the warrants and derivative financial liability components of the convertible bonds are categorized as level 3.

As at March 31, 2016 and 2015, the Group did not have any financial instruments categorized as level 1 or level 2 and there were no transfers among levels 1, 2 and 3 during the years ended March 31, 2016 and 2015.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table presents the changes in level 3 instruments for the years ended March 31, 2016 and 2015.

	<b>Warrants issued in May 2011 HK\$'000</b>	<b>Warrants issued in August 2012 HK\$'000</b>	<b>Derivative components of convertible bonds HK\$'000</b>	<b>Total HK\$'000</b>
At April 1, 2014	10	24,364	287,893	312,267
Decrease in fair values of derivative components/warrants	(10)	(7,332)	(60,583)	(67,925)
Amortization of deferred loss on warrants and derivative components of convertible bonds	—	430	5,485	5,915
At March 31, 2015 and at April 1, 2015	—	17,462	232,795	250,257
Decrease in fair values of derivative components/warrants	—	(9,522)	(139,684)	(149,206)
Amortization of deferred loss on warrants and derivative components of convertible bonds	—	430	5,493	5,923
At March 31, 2016	—	8,370	98,604	106,974
Total gain for the year included in the consolidated income statement for liabilities held at the end of the year:				
March 31, 2015	(10)	(6,902)	(55,098)	(62,010)
March 31, 2016	—	(9,092)	(134,191)	(143,283)
Changes in unrealized gain for the year included in profit or loss at the end of the year:				
March 31, 2015	(10)	(6,902)	(55,098)	(62,010)
March 31, 2016	—	(9,092)	(134,191)	(143,283)

The higher the Company's share price and the expected volatility used in determining the fair values of the level 3 instruments, the higher the fair values of the instruments. The lower the interest rate used in determining the fair values of the level 3 instruments, the lower the fair values of the instruments.

For disclosures of investment properties, investment properties under construction and property, plant and equipment that are measured at fair values, please refer to notes 17, 18 and 19 to the consolidated financial statements, respectively.

The Group does not have any financial assets/liabilities that are subject to offsetting, enforceable master netting arrangement and similar agreements during the year.

The carrying amounts of the Group's other financial assets and liabilities approximate their fair values.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 7—Revenue**

Revenue represents (i) the amounts received and receivable from customers in respect of the sale of properties during the year, (ii) the amounts received and receivable in respect of leasing and property management fees of investment properties, (iii) the amounts received and receivable from room rental and other ancillary services, and (iv) amounts received and receivable from servicing and assignments of development rights.

	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Sales of properties	210,019	1,393,958	205,011
Rental and property management income	8,363	5,738	10,244
Hotel income	2,484	1,057	—
Revenue from servicing and assignments of development rights	—	—	171,761
	<u>220,866</u>	<u>1,400,753</u>	<u>387,016</u>

**Note 8—Segment Information**

The Group determines its operating segments based on the reports reviewed by the executive directors of the board that are used to make strategic decision.

As at and for the year ended March 31, 2016, the Group has two reportable operating segments. The Group's operating businesses are structured and managed separately according to the nature of the operations and from the product perspectives. Each of the Group's reportable operating segments represents a strategic business unit that is subject to risks and returns that are different from the other reportable operating segment. Details of the reportable operating segments are as follows:

Agricultural logistics—Development, sales and leasing properties of integrated agricultural logistics and trade centers in Northeast China and hotel operations.

Rural-urban migration and city re-development—Development, sales and leasing of residential and commercial properties and servicing and assignments of development rights.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Segment information for these businesses is presented below:

*The segment results for the year ended March 31, 2016*

	Agricultural logistics HK\$'000	Rural-urban migration and city re- development HK\$'000	Total HK\$'000
<b>Profit and loss items</b>			
Segment revenue and revenue from external customers	52,124	168,742	220,866
Segment operating (loss)/profit	(316,831)	225,804	(91,027)
Finance income	182	1,372	1,554
Finance costs	(11,003)	(12,832)	(23,835)
Share of losses of an associate	(2,368)	—	(2,368)
Segment (loss)/profit before income tax	(330,020)	214,344	(115,676)
Income tax expenses	(2,488)	(82,478)	(84,966)
Segment (loss)/profit after taxation	(332,508)	131,866	(200,642)
<b>Other information:</b>			
Depreciation	19,315	11,909	31,224
Amortization	1,820	4,036	5,856
(Decrease)/increase in fair values of investment properties	(8,385)	1,163	(7,222)
Provision for impairment of deposit for land use rights	124,373	—	124,373
Provision for impairment of deposit for investment properties	12,241	—	12,241
Provision for impairment of trade and other receivables	88,254	2,191	90,445

*The segment results for the year ended March 31, 2015*

	Agricultural logistics HK\$'000	Rural-urban migration and city re- development HK\$'000	Total HK\$'000
<b>Profit and loss items</b>			
Segment revenue and revenue from external customers	74,794	1,325,959	1,400,753
Segment operating (loss)/profit	(217,205)	508,936	291,731
Finance income	13,430	627	14,057
Finance costs	(6,215)	—	(6,215)
Share of losses of an associate	(12,813)	—	(12,813)
Segment (loss)/profit before income tax	(222,803)	509,563	286,760
Income tax expenses	(37,588)	(242,867)	(280,455)
Segment (loss)/profit after taxation	(260,391)	266,696	6,305
<b>Other information:</b>			
Depreciation	17,764	8,695	26,459
Amortization	2,544	3,944	6,488
(Decrease)/increase in fair values of investment properties	(13,242)	17,494	4,252
Provision for impairment of trade and other receivables	101,308	12,611	113,919



**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*The segment results for the year ended March 31, 2014*

	Agricultural logistics HK\$'000	Rural-urban migration and city re- development HK\$'000	Total HK\$'000
<b>Profit and loss items</b>			
Segment revenue and revenue from external customers	215,255	171,761	387,016
Segment operating (loss)/profit	(40,695)	151,377	110,682
Finance income	27,221	189	27,410
Share of losses of an associate	(2,258)	—	(2,258)
Segment (loss)/profit before income tax	(15,732)	151,566	135,834
Income tax expenses	(42,706)	(44,133)	(86,839)
Segment (loss)/profit after taxation	(58,438)	107,433	48,995
<b>Other information:</b>			
Depreciation	9,730	337	10,067
Amortization	2,641	455	3,096
Increase in fair values of investment properties	18,296	—	18,296
Provision for impairment of trade and other receivables	43,221	—	43,221
Impairment of deposit for investment properties	2,426	—	2,426

*The segment assets and liabilities at March 31, 2016*

	Agricultural logistics HK\$'000	Rural-urban migration and city re- development HK\$'000	Total HK\$'000
<b>Statements of financial position items</b>			
Total segment assets	3,216,703	4,123,728	7,340,431
Total segment assets include:			
Interest in an associate	8,865	—	8,865
Interests in joint ventures	7,052	187,386	194,438
Additions to non-current assets	945	40,200	41,145
Total segment liabilities	1,364,405	3,638,155	5,002,560

*The segment assets and liabilities at March 31, 2015*

	Agricultural logistics HK\$'000	Rural-urban migration and city re- development HK\$'000	Total HK\$'000
<b>Statements of financial position items</b>			
Total segment assets	3,350,674	2,574,494	5,925,168
Total segment assets include:			
Interest in an associate	11,840	—	11,840
Interest in a joint venture	7,466	—	7,466
Additions to non-current assets	183,738	70,992	254,730
Total segment liabilities	1,572,704	1,925,366	3,498,070

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

A reconciliation of the reportable segments' profit before income tax to the Group's profit before income tax is as follows:

	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Total (loss)/profit before income tax for reportable segments	(115,676)	286,760	135,834
Decrease in fair value of the warrants	9,092	6,912	12,991
Decrease in fair value of derivative components of convertible bonds	134,191	55,098	74,894
Corporate finance costs	—	—	(16,918)
Corporate expenses, net	(6,940)	(14,266)	(12,678)
Profit before income tax of the Group	<u>20,667</u>	<u>334,504</u>	<u>194,123</u>

A reconciliation of the total of reportable segments' assets to the Group's total assets is as follows:

	At March 31, 2016 HK\$'000	At March 31, 2015 HK\$'000
Total for reportable segments	7,340,431	5,925,168
Unallocated:		
Corporate assets	5,172	5,497
Total assets for the Group	<u>7,345,603</u>	<u>5,930,665</u>

A reconciliation of the total of the reportable segments' liabilities to the Group's total liabilities is as follows:

	At March 31, 2016 HK\$'000	At March 31, 2015 HK\$'000
Total for reportable segments	5,002,560	3,498,070
Unallocated:		
Corporate liabilities	266,073	165,473
Derivative financial liabilities	106,974	250,257
Convertible bonds	736,788	607,482
Total liabilities for the Group	<u>6,112,395</u>	<u>4,521,282</u>

The Company is domiciled in Hong Kong. The Group's revenue from external customers derived from Hong Kong and places other than Hong Kong are Nil (2015: Nil and 2014: Nil) and HK\$220,866,000 (2015: HK\$1,400,753,000 and 2014: HK\$387,016,000) respectively.

As of March 31, 2016, the total of non-current assets located in Hong Kong and places other than Hong Kong are HK\$4,000 (March 31, 2015: HK\$25,000) and HK\$1,271,016,000 (March 31, 2015: HK\$1,175,232,000) respectively.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

During the years ended March 31, 2016, 2015 and 2014, all of the Group's revenue were from external customers located in the PRC.

During the year ended March 31, 2016, there was no revenue (2015: Nil and 2014: HK\$171,761,000) derived from a single external customer amounted to 10% or more of the Group's revenue.

**Note 9—Other Income, Net**

The Group's other income, net, as presented on the face of the consolidated income statements is analyzed as follows:

	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Government grants (Note)	39,304	1,261	16,063
Others	1,902	1,627	622
	<u>41,206</u>	<u>2,888</u>	<u>16,685</u>

Note:

The Group received government grants from local governments on its contribution to the overall developments and operations of integrated agricultural logistic and trade centers and supporting facilities, and rural-urban migration and city re-development at their cities. Majority of these grants were provided subsequent to the sales of properties developed in these cities.

**Note 10—Other Gains, Net**

The Group's other gains, net, as presented on the face of the consolidated income statements is analyzed as follows:

	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Exchange gain /(loss)	6,360	(1,836)	(4,641)
Decrease in fair values of derivative components of convertible bonds (Note (i))	134,191	55,098	74,894
Decrease in fair values of the warrants (Note (ii))	9,092	6,912	12,991
(Decrease)/increase in fair values of investment properties and investment properties under construction	(7,222)	4,252	18,296
Decrease in fair values of leasehold land and buildings	(7,872)	(23,338)	—
Loss on disposal of property, plant and equipment	(7)	(504)	—
Transactions costs related to the derivative components of convertible bonds	—	—	(128)
Gain on deemed disposal of subsidiaries (Note 42)	133,330	—	—
Release of reserve upon deemed disposal of subsidiaries	439	—	—
	<u>268,311</u>	<u>40,584</u>	<u>101,412</u>

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Note:

- (i) As discussed in note 34, the Company issued certain convertible bonds which contained a derivative component during the years ended March 31, 2014 and 2013. Due to a decrease in fair value of the derivative component mainly arising from the decrease in the Company's share price and the approaching in maturity dates, the Company recorded a gain of HK\$134,191,000 (2015: a gain of HK\$55,098,000 mainly arising from decrease in the Company's share price and the approaching in maturity dates and 2014: a gain of HK\$74,894,000 mainly arising from decrease in the Company's share price). The assumptions used in determining the fair value of the derivative component are further discussed in note 34 to these consolidated financial statements.
- (ii) As discussed in note 32, the Company issued certain warrants during the years ended March 31, 2013 and 2012. In the current year, due to a decrease in fair value of these warrants mainly arising from the decrease in the Company's share price, the Company recorded a gain of HK\$9,092,000 (2015: a gain of HK\$6,912,000 mainly arising from the decrease in the Company's share price and 2014: a gain of HK\$12,991,000 mainly arising from the decrease in the Company's share price). The assumptions used in determining the fair value of these warrants are further discussed in note 32 to these consolidated financial statements.

**Note 11—Expenses by Nature**

The Group's expenses by their nature as presented on the face of the consolidated income statements is analyzed as follows:

	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Costs of completed properties sold	100,384	805,882	126,982
Over provision for costs of completed properties sold in prior years (Note i)	(79,611)	—	—
Cost of property management	3,764	4,141	6,123
Employee benefit expenses (including directors' emoluments) (Note 12)	65,504	52,196	37,098
Auditor's remuneration			
—Provision for current year	4,700	4,600	4,980
Depreciation of property, plant and equipment (Note 19)	31,224	26,459	10,067
Amortization of land use rights (Note 20)	5,856	6,488	3,096
Provision for impairment of trade and other receivables (Note 28)	89,465	113,919	43,221
Provision for impairment of deposit for land use right (Note 22)	124,373	—	—
Provision for impairment of deposit for investment properties (Note ii)	12,241	—	2,426
Operating lease rental on rented premises	5,721	2,484	1,968
Advertising, promotion and related expenses	35,216	19,799	23,164
Land use tax	41,964	25,955	17,740
Heating costs	5,440	6,306	11,980
Legal and professional fees	3,584	1,890	3,615
Others	35,242	34,631	26,764
Total cost of sales, selling expenses and administrative expenses	<u>485,067</u>	<u>1,104,750</u>	<u>319,224</u>

Note:

- (i) During the current year, there is a change in estimate on construction cost arising from the management of the Group negotiated with several of its contractors and was able to agree with them to reduce certain construction costs previously charged to the Group. Accordingly, revisions to the overall construction costs relating to the affected projects were required in the current year and an over provision for costs of completed properties sold in prior years of HK\$79,611,000 was credited to the consolidated income statement during the fiscal year ended March 31, 2016.
- (ii) In prior years, the Group paid RMB11,925,000 as deposit for the acquisition of certain investment properties and the amount of RMB 1,925,000 was impaired during the fiscal year ended March 31, 2014. During the fiscal year ended March 31, 2016, due to financial difficulty experienced by the developer of these properties, it is in the opinion of the Company's directors that the recovery of the deposit is remote and therefore a provision of approximately RMB10,000,000 was recognized in the consolidated income statement.

**Note 12—Employee Benefit Expenses (Including Directors' Emoluments)**

	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Salaries, wages and other benefits	60,926	47,885	33,837
Pension costs—defined contribution plans and social security costs	4,578	4,311	3,261
	<u>65,504</u>	<u>52,196</u>	<u>37,098</u>

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 13—Finance Income and Costs**

The Group's finance (costs)/income, net, as presented on the face of the consolidated income statements is analyzed as follows:

	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
<b>Finance income</b>			
Interest income on short-term bank deposits	1,554	1,919	746
Interest income on other receivables (Note)	—	12,138	26,664
	<u>1,554</u>	<u>14,057</u>	<u>27,410</u>
<b>Finance costs</b>			
Interest expense on bank borrowings	(40,532)	(66,804)	(69,833)
Interest expense on other borrowings	(64,357)	(56,219)	(19,965)
Interest expense on convertible bonds	(218,223)	(182,109)	(122,851)
Amounts capitalized on qualifying assets	299,277	298,917	195,731
	<u>(23,835)</u>	<u>(6,215)</u>	<u>(16,918)</u>
<b>Net finance (costs)/income</b>	<u>(22,281)</u>	<u>7,842</u>	<u>10,492</u>

**Note:**

During the fiscal year ended March 31, 2013, the Company disposed of its equity interests in China Focus City (H.K.) Holdings Limited and China Focus City Holdings (Group) Co., Ltd. and the disposal was satisfied by cash and certain interest bearing receivables with interest rates ranging from 12% to 21% per annum which gave rise to the interest income for the years ended March 31, 2015 and 2014. During the fiscal year ended March 31, 2015, the directors of the Company decided to record a provision for impairment against this entire balance as the directors of the Company considered collectability of the whole balance was remote. No interest income was earned for the year ended March 31, 2016

The capitalization rate of borrowings is 21.0% for the year ended March 31, 2016 (2015: 22.2% and 2014: 16.3%). The decrease is mainly attributable to the decrease in effective interest rate of the Group's borrowings.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 14—Income Tax Expenses**

The Group's income tax expenses as presented on the face of the consolidated income statements is analyzed as follows:

	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Current income tax:			
PRC enterprise income tax	63,804	113,863	70,132
PRC land appreciation tax	141,344	143,665	13,196
	<u>205,148</u>	<u>257,528</u>	<u>83,328</u>
Under provision in prior years:			
PRC land appreciation tax	—	30,303	—
Deferred income tax (credit)/charge for the current year (Note 25)			
PRC enterprise income tax	(56,421)	(7,376)	3,511
PRC land appreciation tax	(63,761)	—	—
	<u>(120,182)</u>	<u>(7,376)</u>	<u>3,511</u>
	<u>84,966</u>	<u>280,455</u>	<u>86,839</u>

The PRC enterprise income tax in respect of operations in Mainland China has been provided at the tax rate of 25% (2015: 25% and 2014: 25%) on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

No income tax in respect of operations in Hong Kong has been provided as the Group has no assessable profits for the year based on existing legislation, interpretations and practices in respect thereof (2015 and 2014: Nil).

PRC land appreciation tax is levied and provided for in the consolidated financial statements at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property expenditures.

The tax charge for the year can be reconciled to the profit before income tax using the enacted tax rates of the home countries where the subsidiaries operated as follows:

	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Profit before income tax	20,667	334,504	194,123
Tax calculated at tax rates applicable to profits in the respective entities	(5,287)	84,144	44,165
Tax effect of:			
Associate's losses reported net of tax	592	3,203	564
PRC land appreciation tax deductible for PRC corporate income tax purposes	(19,396)	(43,492)	(3,299)
Expenses that are not deductible for tax purpose	65,778	46,338	20,009
Income not subject to tax	(58,119)	(11,190)	(14,556)
Utilization of tax loss not previously recognized	—	—	(256)
Tax loss for which no deferred income tax was recognized	23,815	27,484	27,016
	<u>7,383</u>	<u>106,487</u>	<u>73,643</u>
Land appreciation tax	77,583	173,968	13,196
Income tax charge for the year	<u>84,966</u>	<u>280,455</u>	<u>86,839</u>

The effective tax rate during the fiscal year ended March 31, 2016 was positive of 411.1% (2015: positive of 83.8% and 2014: positive of 44.7%). The increase in effective tax rate was primarily attributable to increase in land appreciation tax as a result of reduction in certain construction costs after negotiation with certain contractors.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 15—Earnings Per Share (“EPS”)**

	March 31, 2016			March 31, 2015			March 31, 2014		
	<u>Earnings</u>	<u>Shares</u>	<u>EPS</u>	<u>Earnings</u>	<u>Shares</u>	<u>EPS</u>	<u>Earnings</u>	<u>Shares</u>	<u>EPS</u>
	<u>HK\$'000</u>	<u>'000</u>	<u>HK\$</u>	<u>HK\$'000</u>	<u>'000</u>	<u>HK\$</u>	<u>HK\$'000</u>	<u>'000</u>	<u>HK\$</u>
<b>Basic earnings per share:</b>									
Net (loss)/profit attributable to ordinary shares	(49,183)	73,544	(0.67)	61,163	73,544	0.83	104,189	73,544	1.42
Net (loss)/profit attributable to preferred shares	(67)	100	(0.67)	83	100	0.83	142	100	1.42
Net (loss)/profit attributable to equity holders	(49,250)			61,246			104,331		
Effect of dilutive convertible bonds	(134,191)	78,575		(55,098)	78,575		(80,632)	55,499	
<b>Diluted earnings/(loss) per share:</b>									
Net (loss)/profit attributable to ordinary shares, including assumed exercise	(183,374)	152,120	(1.21)	6,065	152,120	0.04	23,557	129,043	0.18
Net (loss)/profit attributable to preferred shares, including assumed exercise	(67)	100	(0.67)	83	100	0.83	142	100	1.42

The calculation of the basic earnings per share is based on the adjusted net profit attributable to equity holders for the year, which is derived by net profit attributable to equity holders after deducting the profit shared by preferred shares, and on the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise convertible debt and warrants. The convertible debt is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense and changes in fair value of derivative components of convertible debt less the tax effect, if applicable. For the warrants, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the warrants. For the fiscal year ended March, 2016, the convertible debt and warrants are anti-dilutive.

**Note 16—Dividend**

No dividends were paid, declared or proposed during the years ended March 31, 2016, 2015 and 2014.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 17—Investment Properties**

	2016 HK\$'000	2015 HK\$'000
<b>At fair value</b>		
At beginning of the year	633,544	608,909
Exchange difference	(35,009)	5,465
Transferred from land use rights (Note 20)	—	14,918
Transferred from investment properties under construction (Note 18)	4,138	—
Refund of government grant	(1,873)	—
(Decrease)/increase in fair values (Note 10)	(7,222)	4,252
At end of the year	<u>593,578</u>	<u>633,544</u>

The following amounts have been recognized in the consolidated income statements for investment properties:

	2016 HK\$'000	2015 HK\$'000
Rental income	4,189	2,944
Direct operating expenses arising from investment properties that generate rental income	(209)	(147)
	<u>3,980</u>	<u>2,797</u>

As at March 31, 2016 and 2015, the Group had no unprovided contractual obligations for future repairs and maintenance.

Independent valuations of the Group's investment properties were performed by an independent professional property valuer, Savills Valuation and Professional Services Limited, to determine the fair values of the investment properties as at March 31, 2016, by using either the market approach, income approach or cost approach, at a total of HK\$593,578,000 (2015: HK\$633,544,000). The valuations were arrived at by making reference to comparable market transactions or construction costs and where appropriate, on the basis of capitalising the net rental income derived from the existing tenancies with due allowance on reversionary potential. The decrease in fair value of the investment properties amounted to HK\$7,222,000 (2015: HK\$4,252,000 increase) has been debited (2015: credited) to other gains, net in the consolidated income statement.

The investment properties and investment properties under construction of the Group were carried at fair values, by valuation method, which are categorized into different fair value hierarchy levels, and are defined as follows:

- Quoted prices in active markets for identical assets (level 1).
- Significant other observable inputs (level 2).
- Significant unobservable inputs (level 3).

As one or more of the significant inputs is not based on observable market data, the investment properties and investment properties under construction of the Group are categorized as level 3.

The Group's policy is to recognize transfers between fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. As at March 31, 2016 and 2015, the Group did not have any investment properties and investment properties under construction categorized as level 1 or level 2 and there were no transfers among levels 1, 2 and 3 during the years ended March 31, 2016, 2015 and 2014.

The Group's investment properties and investment properties under construction were valued at March 31, 2016 and 2015 by independent professional qualified valuers who hold a recognized relevant professional qualification and have recent experience in the locations and segments of the investment properties and investment properties under construction valued. For all investment properties and investment properties under construction, they have been on the basis of highest and best use and reflective of their existing state as of the valuation date.



**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The Group's finance department includes a team that review the valuations performed by the independent valuers. Discussions of valuation processes and results are held between the Chief Financial Officer, the valuation team and the valuers at least once a year, in line with the Group's annual reporting date. As at March 31, 2016 and 2015, the fair values of the investment properties and investment properties under construction have been determined by Savills Valuation and Professional Services Limited.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report;
- Assesses property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuers.

The fair value of certain investment properties in China Northeast Logistics City—Tieling amounted to HK\$385,487,000 (2015: HK\$416,482,000) was determined by using the income capitalization method, which was valued by capitalising the estimated market rental for the unexpired land use term. The capitalization rate adopted ranged from 7% to 8.5% (2015: 7% to 8%) and the monthly market rental used ranged from RMB3.4 to RMB31.0 (2015: RMB3.4 to RMB32.0) per month per square meter. The higher the capitalization rate, the lower the fair value. The higher the rental value, the higher the fair value.

The fair value of certain investment properties in China Northeast Logistics City—Tieling amounted to HK\$535,605,000 (2015: HK\$575,026,000) was determined by using direct comparison approach with reference to the comparable market transactions as available in the relevant markets assuming sales with the benefit of immediate vacant possession. The higher the capitalization rate, the lower the fair value. The higher the rental value, the higher the fair value.

The fair value of an investment property in China Northeast Logistics City—Dezhou amounted to HK\$164,267,000 (2015: HK\$173,904,000) was determined by using depreciated replacement cost ("DRC") approach. DRC is based on an estimate of the current replacement costs of improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The DRC approach generally provides the most reliable indication of value of the properties in the absence of known market based on comparable sales. The DRC is subject to adequate potential profitability of the business.

The fair value of investment properties in China Glorious City—Zhoukou amounted to HK\$30,096,000 (2015: HK\$32,623,000) was determined by using income capitalization method, which was valued by capitalising the estimated market rental for the unexpired land use term. The capitalization rate adopted was 6.5% (2015: 6.5%) and the monthly market rental used was RMB4.5 (2015: RMB5.0) per month per square meter. The higher the capitalization rate, the lower the fair value. The higher the rental value, the higher the fair value.

The fair value of an investment property in China Glorious Logistics City—Zhoukou amounted to HK\$4,076,000 (2015: Nil) was determined by using depreciated replacement cost ("DRC") approach. DRC is based on an estimate of the current replacement costs of improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The DRC approach generally provides the most reliable indication of value of the properties in the absence of known market based on comparable sales. The DRC is subject to adequate potential profitability of the business.

There are inter-relationships between unobservable inputs. Expected vacancy rates may impact the yield with higher vacancy rates resulting in higher yields. An increase in future rental income may be linked with higher cost. If the remaining lease term increases, the yield may decrease.

There were no changes to the valuation techniques during the years ended March 31, 2016 and 2015.

The Group's investment properties are either rented or intended to be rented out under operating leases.

All the Group's investment properties are located in the PRC and the land, on which these investment properties are located, was held under leases of 40 years.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 18—Investment Properties Under Construction**

	2016 HK\$'000	2015 HK\$'000
<b>At fair value</b>		
At beginning of the year	—	—
Additions	4,138	—
Transfer to investment properties (Note 17)	(4,138)	—
At end of the year	<u>—</u>	<u>—</u>

**Note 19—Property, Plant and Equipment**

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction- in-progress HK\$'000	Total HK\$'000
<b>Cost or valuation</b>							
At April 1, 2014	75,792	2,112	13,267	14,443	16,456	—	122,070
Exchange difference	2,656	44	116	182	172	—	3,170
Additions	—	5,848	—	4,270	5,295	57,729	73,142
Acquisition of a subsidiary (Note 41)	163,454	—	—	3,185	32	—	166,671
Disposals	—	(1,513)	—	(140)	(1,018)	—	(2,671)
Reclassification upon completion	57,729	—	—	—	—	(57,729)	—
Revaluation decrease, net	(23,288)	—	—	—	—	—	(23,288)
At March 31, 2015 and at April 1, 2015	276,343	6,491	13,383	21,940	20,937	—	339,094
Exchange difference	(15,235)	(348)	(742)	(1,233)	(1,168)	(430)	(19,156)
Additions	—	—	—	1,535	834	34,638	37,007
Disposals	(596)	—	—	(74)	(461)	—	(1,131)
Reclassification upon completion	13,691	—	—	—	—	(13,691)	—
Revaluation decrease, net	(16,963)	—	—	—	—	—	(16,963)
At March 31, 2016	<u>257,240</u>	<u>6,143</u>	<u>12,641</u>	<u>22,168</u>	<u>20,142</u>	<u>20,517</u>	<u>338,851</u>
<b>Comprising:</b>							
At cost—March 31, 2015	—	6,491	13,383	21,940	20,937	—	62,751
At valuation—March 31, 2015	<u>276,343</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>276,343</u>
	<u>276,343</u>	<u>6,491</u>	<u>13,383</u>	<u>21,940</u>	<u>20,937</u>	<u>—</u>	<u>339,094</u>
At cost—March 31, 2016	—	6,143	12,641	22,168	20,142	20,517	81,611
At valuation—March 31, 2016	<u>257,240</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>257,240</u>
	<u>257,240</u>	<u>6,143</u>	<u>12,641</u>	<u>22,168</u>	<u>20,142</u>	<u>20,517</u>	<u>338,851</u>

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction- in-progress HK\$'000	Total HK\$'000
<b>Accumulated depreciation</b>							
At April 1, 2014	—	1,172	4,049	7,107	6,275	—	18,603
Exchange difference	203	7	41	90	71	—	412
Depreciation charged for the year	17,045	756	945	4,656	3,057	—	26,459
Eliminated on disposals	—	(1,009)	—	(73)	(610)	—	(1,692)
Eliminated on revaluation	(17,248)	—	—	—	—	—	(17,248)
At March 31, 2015 and at April 1, 2015	—	926	5,035	11,780	8,793	—	26,534
Exchange difference	—	(64)	(307)	(706)	(547)	—	(1,624)
Depreciation charged for the year	22,097	1,210	1,379	3,228	3,310	—	31,224
Eliminated on disposals	—	—	—	(5)	(410)	—	(415)
Eliminated on revaluation	(22,097)	—	—	—	—	—	(22,097)
At March 31, 2016	—	2,072	6,107	14,297	11,146	—	33,622
<b>Net book amount</b>							
At March 31, 2015	276,343	5,565	8,348	10,160	12,144	—	312,560
At March 31, 2016	257,240	4,071	6,534	7,871	8,996	20,517	305,229

All the Group's leasehold land and buildings are located in the PRC and the land, on which these buildings are located, was held under leases of 40 years.

The depreciation for the fiscal year ended March 31, 2016 of HK\$7,445,000 (2015: HK\$8,655,000), HK\$1,844,000 (2015: HK\$2,543,000) and HK\$21,935,000 (2015: HK\$15,261,000) were charged to cost of sales, selling and administrative expenses, respectively.

The fair value of the hotel located at Tieling, Liaoning Province amounted to HK\$117,506,000 (2015: HK\$140,900,000) was determined by using the income capitalization method, which was valued by capitalising the estimated market rental for the unexpired land use term. The capitalization rate adopted was 9% (2015: 9%) and the monthly market rental used was RMB270 (2015: RMB300) per day per room. The higher the capitalization rate, the lower the fair value. The higher the rental value, the higher the fair value.

Certain properties of the Group regarded as operational such as sales center and showroom located at Tieling, Liaoning Province and Dezhou, Shandong Province were valued on the basis of direct comparison approach at HK\$75,778,000 (2015: HK\$80,224,000) with reference to the comparable market transactions as available in the relevant markets assuming sales with the benefit of immediate vacant possession. The higher the capitalization rate, the lower the fair value. The higher the rental value, the higher the fair value.

Certain properties of the Group regarded as operational such as Water Plant and Heating Station located at Tieling, Liaoning Province and sales center and showroom located at Zhoukou, Henan Province, Hengyang, Hunan Province and Handan, Hebei Province were valued on the basis of depreciated replacement cost ("DRC") at HK\$63,956,000 (2015: HK\$55,219,000) as there were no comparable market transaction for such properties. DRC is based on an estimate of the current replacement costs of improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The DRC approach generally provides the most reliable indication of value of the properties in the absence of known market based on comparable sales. The DRC is subject to adequate potential profitability of the business.

If the leasehold land and buildings had not been revalued, they would have been included in the consolidated financial statements at historical cost less accumulated depreciation and impairment losses of HK\$261,055,000 (2015: HK\$285,533,000).

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 20—Land Use Rights**

	2016 HK\$'000	2015 HK\$'000
At beginning of the year	272,573	262,369
Exchange difference	(15,999)	2,351
Amortization for the year	(5,856)	(6,488)
Additions (Note (i))	1,676,129	638,127
Refunds of payments from acquisition of land use rights (Note (ii))	(357,781)	(288,163)
Injection into a joint venture (Note 24)	—	(7,417)
Deemed disposal of subsidiaries (Note 42)	(480,671)	—
Reclassified as non-current asset held for sale (Note 30(b))	(13,411)	—
Transferred to investment properties (Note 17)	—	(14,918)
Transferred to properties under development (Note 27)	(774,886)	(313,288)
At end of the year	<u>300,098</u>	<u>272,573</u>
Represented by:		
Amount included under current assets	260,142	215,084
Amount included under non-current assets	39,956	57,489
	<u>300,098</u>	<u>272,573</u>

Note:

- (i) During the years ended March 31, 2016 and 2015, the additions included certain up-front payments and related costs incurred in acquiring a portion of China Northeast Logistics City—Dezhou land, China Glorious City—Hengyang land, China Glorious City—Zhoukou, China Glorious City—Nanyang and China Glorious City—Handan land.
- (ii) During the years ended March 31, 2016 and 2015, majority of the refunds represented governments grants received from the local governments and money received from the local governments for certain payments made and costs incurred in acquiring lands for China Glorious City—Zhoukou, China Glorious City—Hengyang and China Glorious City—Handan.

As at March 31, 2016, the amount of land use rights included in current assets expected to be recovered after more than one year amounted to HK\$258,932,000 (2015: HK\$213,393,000). The remaining balance is expected to be recovered within one year.

The land use rights are situated in the PRC and held under the lease of between 40 and 70 years.

**Note 21—Goodwill**

	2016 HK\$'000	2015 HK\$'000
<b>Cost</b>		
At beginning of the year	919	—
Acquisition of a subsidiary (note 41)	—	919
At end of the year	<u>919</u>	<u>919</u>

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 22—Deposits for Acquisition of Land Use Rights**

During the year ended March 31, 2009, the Group disposed of all assets and liabilities, together with all related commitment and contingent liabilities thereof, in relation to a property development project at a consideration of RMB101,600,000 (the “Receivables”) to an independent third party (the “Buyer”). In December 2009, the PRC local government, the Buyer and the Group entered into a memorandum pursuant to which the PRC local government and the Buyer agreed that the Group would be able to utilize the Receivables as part of the future land acquisition consideration in Tieling, the PRC. Accordingly, the Receivables were transferred to deposits for acquisition of land use rights during the fiscal year ended March 31, 2010 and the amount as at March 31, 2016 was approximately HK\$121,821,000 (March 31, 2015: HK\$128,968,000). During the fiscal year ended March 31, 2016, management of the Group had been in discussions with the PRC local government about the utilization plan of the deposits for acquisition of land use rights but was unable to reach a settlement plan nor agree on a payment schedule. It is in the opinion of the Company’s directors that the recoverability of this balance is remote. Accordingly, a provision for impairment of the receivable of RMB101,600,000 (approximately HK\$121,821,000) was charged to the consolidated income statement during the fiscal year ended March 31, 2016.

During the fiscal year ended March 31, 2014, the Group paid an aggregate amount of RMB161,409,000 to the PRC local government as a deposit for purchase of a land use right for its project in Dezhou, the PRC, and the deposit as March 31, 2014 was approximately HK\$203,107,000. The deposit was utilized during the fiscal year ended March 31, 2015 for the purchase of land use right. During the fiscal year ended March 31, 2014, the Group paid an aggregate amount of RMB343,164,000 to the PRC local government as a deposit for purchase of land use right for its project in Hengyang, the PRC. During the fiscal year ended March 31, 2015, an accumulated amount of RMB184,489,000 was utilized upon purchase of land use right. During the fiscal year ended March 31, 2016, the Group paid an aggregate amount of RMB16,150,000 to the PRC local government as a deposit for purchase of land use right for its project in Hengyang, the PRC and an amount of RMB158,675,000 was utilized upon purchase of land use right and net deposit balance as at March 31, 2016 was RMB16,150,000 or approximately HK\$19,364,000 (March 31, 2015: HK\$201,417,000).

During the fiscal year ended March 31, 2014, the Group paid an aggregate amount of RMB23,500,000 to the PRC local government as a deposit for purchase of a land use right for its project in Zhoukou, the PRC, and the deposit at March 31, 2014 was approximately HK\$29,571,000. The deposit was fully utilized for the purchase of land use right during the fiscal year ended March 31, 2015. During the fiscal year ended March 31, 2016, the Group paid an aggregate amount of RMB35,800,000 to the PRC local government as a deposit for purchase of land use right for its project in Zhoukou, the PRC and its balance as at March 31, 2016 was RMB35,800,000 or approximately HK\$42,925,000 (March 31, 2015: Nil).

During the fiscal year ended March 31, 2016, the Group paid an aggregate amount of RMB613,887,000 to the PRC local government as a deposit for purchase of a land use right for its project in Handan, the PRC. The deposit was fully utilized for the purchase of land use right during the fiscal year ended March 31, 2016.

During the fiscal year ended March 31, 2016, the Group paid an aggregate amount of RMB329,477,000 to the PRC local government as a deposit for purchase of a land use right for its project in Nanyang, the PRC. The deposit was fully utilized for the purchase of land use right during the fiscal year ended March 31, 2016.

As at March 31, 2016, the amount of deposits for acquisition of land use rights included in current assets expected to be recovered after more than one year amounted to HK\$62,289,000 (2015: HK\$201,417,000).

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 23—Interest in an Associate**

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
<b>Non-current assets:</b>		
Unlisted investment, at cost	28,686	28,686
Share of losses of an associate	(21,887)	(19,519)
Exchange difference	2,066	2,673
Share of net assets	<u>8,865</u>	<u>11,840</u>

Financial information of the associate for the years ended March 31, 2016 and March 31, 2015 is summarized as follows:

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
Current assets	4,450	846
Non-current assets	180,841	202,515
Current liabilities	(148,446)	(158,216)
Equity	<u>36,845</u>	<u>45,145</u>

	2016 HK\$'000	2015 HK\$'000
Turnover	<u>—</u>	<u>—</u>
Net loss	<u>(5,920)</u>	<u>(32,033)</u>

The above financial information is presented before the elimination of unrealized gain between the Company and the associate in prior years.

There are no contingent liabilities relating to the Group's interest in an associate.

At March 31, 2016, details of the Group's investment in an associate are as follows:

<u>Name of Company</u>	<u>Place of establishment and operation</u>	<u>Class of shares held</u>	<u>Proportion of ownership interest %</u>		<u>Principal activities</u>
			<u>2016</u>	<u>2015</u>	
Tieling Motor Vehicles Trading Co., Ltd.* 鐵嶺機動車交易有限責任公司	The People's Republic of China ("PRC")	Registered capital of RMB75,000,000	40%	40%	Property development and investment

\* For identification purpose only.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 24—Interests in Joint Ventures**

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
<b>Non-current assets:</b>		
Unlisted investment, at cost	198,744	7,434
Share of losses	—	—
Exchange difference	(4,306)	32
Share of net assets	<u>194,438</u>	<u>7,466</u>

Details of the Group's investments in joint ventures which are accounted for using equity method are as follows:

Name of Company	Place of establishment and operation	Class of shares held	Proportion of ownership interest %		Principal activities
			2016	2015	
Tieling Jiacheng Agricultural Development Co., Ltd.* 鐵嶺嘉成農業發展有限公司 (Note (i))	PRC	Registered capital of RMB22,760,000	51%	51%	Not yet commenced operation
Hengyang Huayan Property Co., Ltd.* 衡陽華雁置業有限公司 (Note (ii))	PRC	Registered capital of RMB75,000,000	40%	—	Not yet commenced operation
Hengyang Huaqian Property Co., Ltd.* 衡陽華乾置業有限公司 (Note (ii))	PRC	Registered capital of RMB50,000,000	40%	—	Not yet commenced operation

\* For identification purpose only.

Note:

- (i) This joint venture company is an unlisted limited liability company registered in the PRC and there is no quoted market price available for its shares. The principal activity of this joint venture company is the development of certain trade centers located in Tieling, Liaoning Province. Furthermore, a contractual arrangement between the Group and its joint venture partner establishes share of control over this joint venture company.
- (ii) During the fiscal year ended March 31, 2016, the Company's subsidiary, China Glorious City (Hengyang) Co., Ltd. entered into two co-operation agreements (the "Co-Operation Agreements") with two independent third parties controlled by a company whose shares are listed on The Hong Kong Stock Exchange Limited (the "Hengyang JV Partners"), under which the Hengyang JV Partners became shareholder of Hengyang Huayan Property Co., Ltd. ("Huayan") and Hengyang Huaqian Property Co., Ltd. ("Huaqian") by injecting additional capital into Huayan and Huaqian which entitle the Hengyang JV Partners to own 60% equity interests in each of Huayan and Huaqian. As a result of the new shareholding structure and capital, the Company's interests in Huayan and Huaqian were diluted from 100% to 40%, and the Company is deemed to have disposed of 60% of its equity interests in Huayan and Huaqian. Huayan and Huaqian are unlisted limited liability companies registered in the PRC and there are no quoted market price available for their shares. The principal activities of Huayan and Huaqian are the development of residential properties located in Hengyang, Hunan Province. Furthermore, contractual arrangements between the Group and the Hengyang JV Partners establish share of control over these companies.

There are no commitments and contingent liabilities relating to the Group's interests in joint ventures.

Financial information of the Group's significant joint ventures for the years ended March 31, 2016 and March 31, 2015 is summarized as follows:

	Huayan		Huaqian	
	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
Cash and cash equivalents	117	—	15	—
Prepayment	250	—	354	—
Land use rights	249,572	—	221,237	—
Total current assets	249,939	—	221,606	—
Other payable and accruals	(215,961)	—	(198,794)	—
Total current liabilities	(215,961)	—	(198,794)	—
Net assets	<u>33,978</u>	<u>—</u>	<u>22,812</u>	<u>—</u>

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

As Huayan and Huaqian had not yet commenced operations during the year ended March 31, 2016, there were no turnover and insignificant amount of losses was incurred.

**Note 25—Deferred Income Tax**

The major deferred tax liabilities/(assets) recognized by the Group and movements thereon during the current year and prior year are as follows.

**Deferred tax assets:**

	Tax losses HK\$'000	Temporary difference in relation to receipt in advance (Note) HK\$'000	Total HK\$'000
At April 1, 2014	(1,210)	—	(1,210)
Net credit to the consolidated income statement for the year	(8,502)	—	(8,502)
Exchange difference	(65)	—	(65)
At March 31, 2015 and at April 1, 2015	(9,777)	—	(9,777)
Net credit to the consolidated income statement for the year	(15,726)	(102,727)	(118,453)
Exchange difference	864	2,108	2,972
At March 31, 2016	<u>(24,639)</u>	<u>(100,619)</u>	<u>(125,258)</u>

Note:

The temporary difference was attributable to the provisional tax payments made based on the balances of receipt in advance related to the sales of completed properties during the year ended March 31, 2016. Such temporary difference is expected to be recovered when the corresponding revenue is recognized in future period.

As at March 31, 2016, the amount of deferred tax assets included in non-current assets expected to be recovered after one year is HK\$1,525,000 (2015: HK\$9,777,000). The remaining balance is expected to be recovered within one year.

**Deferred tax liabilities:**

	Revaluation of leasehold land and buildings and investment properties HK\$'000
At April 1, 2014	89,323
Net charge to the consolidated income statement for the year	1,126
Net charge to the consolidated statement of comprehensive income for the year	4,324
Exchange difference	819
At March 31, 2015 and at April 1, 2015	95,592
Net credit to the consolidated income statement for the year	(1,729)
Net charge to the consolidated statement of comprehensive income for the year	3,246
Exchange difference	(5,328)
At March 31, 2016	<u>91,781</u>

As at March 31, 2016 and 2015, the deferred taxes liabilities recognized by the Group were expected to be recovered in the period of beyond one year. As at March 31, 2016, the Group did not recognize deferred income tax assets of HK\$97,587,000 (March 31, 2015: HK\$77,226,000) in respect of tax losses amounting to HK\$407,159,000 (March 31, 2015: HK\$325,715,000) that can be carried forward against future taxable income as future taxable profits of certain of the Group's subsidiaries where these losses were incurred were not probable. HK\$49,448,000 of these losses (March 31, 2015: HK\$49,448,000) can be carried forward indefinitely and an amount of HK\$23,600,000, HK\$28,324,000, HK\$104,454,000, HK\$106,070,000 and HK\$95,263,000 will expire by 2017, 2018, 2019, 2020 and 2021, respectively (March 31, 2015: an amount of HK\$13,819,000, HK\$23,600,000, HK\$28,324,000, HK\$104,454,000 and HK\$106,070,000 will expire by 2016, 2017, 2018, 2019 and 2020, respectively).



**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

At March 31, 2016, deferred income tax liabilities of HK\$27,687,000 (March 31, 2015: HK\$41,009,000) has not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries as the Company controls the dividend policies of these subsidiaries and it has determined that these earnings will not be distributed in the foreseeable future. Unremitted earnings totaled HK\$553,756,000 as of March 31, 2016 (March 31, 2015: HK\$820,194,000).

**Note 26—Completed Properties Held for Sale**

All the Group's properties held for sale are located in the PRC and are held under lease term of 40 to 70 years. All the properties held for sale are stated at the lower of cost, deemed cost or net realisable value.

**Note 27—Properties Under Development**

	2016 HK\$'000	2015 HK\$'000
At beginning of the year	2,708,802	1,631,992
Exchange difference	(165,824)	18,414
Additions	866,644	1,335,873
Interest capitalized	298,749	297,688
Transferred from land use rights (Note 20)	774,886	313,288
Transferred to completed properties held for sale	—	(888,453)
At end of the year	<u>4,483,257</u>	<u>2,708,802</u>

All the Group's properties under development are located in the PRC and the land, on which these properties under development are located, are held under leases of 40 to 70 years.

As at March 31, 2016, the amount of properties under development included in current assets expected to be recovered after more than one year is HK\$4,198,161,000 (2015: HK\$2,708,802,000). The remaining balance is expected to be recovered within one year.

**Note 28—Trade and Other Receivables**

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
Trade receivables	35,565	418,801
Less: provision for impairment of trade receivables	(24,114)	(22,245)
Trade receivables, net	11,451	396,556
Prepaid expenses	4,583	8,050
Loans receivable (Note (i))	59,951	63,469
China tax receivable	61,036	4,367
Deposits and other receivables (Notes (i) and (ii))	145,321	146,025
Prepayments for construction costs	2,432	—
Less: provision for impairment of other receivables	(181,777)	(102,955)
	<u>102,997</u>	<u>515,512</u>

Represented by:

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
Amount included under current assets	100,220	515,512
Amount included under non-current assets	2,777	—
	<u>102,997</u>	<u>515,512</u>

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Note:

- (i) During the fiscal year March 31, 2013, the Company disposed of the entire equity interest in China Focus City Holdings (Group) Co., Ltd. (“Qiqihar CFC”) in return for an aggregate consideration of RMB276,923,000 (“Consideration receivable”) from two independent third parties (the “Qiqihar Buyers”). During the same fiscal year the Company advanced a loan of RMB50,000,000 with an effective interest rate of 21% per annum, to the Qiqihar Buyers as a result of the disposal of Qiqihar CFC. As of March 31, 2016, an amount of RMB80,955,000 (2015: RMB80,955,000) remained receivable from the Qiqihar Buyers, and the receivable was guaranteed by one of the shareholders of the Company (the “Guarantor”).
- During the fiscal year ended March 31, 2015, the directors of the Company decided to record a provision for impairment against this entire balance as the directors of the Company considered collectability of the whole balance was remote. Accordingly, an amount of impairment for the receivable of RMB80,955,000 (approximately HK\$102,100,000) was charged to the consolidated income statement during the fiscal year ended March 31, 2015.
- The Group has filed a Hong Kong court case (Action No. 755 of 2015) against the Qiqihar Buyers and the Guarantor for the amount due totalling RMB30,955,000 (approximately HK\$39,293,000). On July 16, 2015, a judgement from the Hong Kong Court of First Instance was issued in favour of the Group and demanded that the Guarantor should repay the Group for the amount due. During the current fiscal year, the Guarantor has lodged a petition to the Hong Kong court and the Group is currently in the progress of preparing for the hearing. Given the judgement issued is in favour of the Group to demand the receivable, the Group’s director still in an opinion that collectability of the whole balance was remote unless any amount has been settled.
- (ii) During the fiscal years ended March 31, 2011 and 2012, the Group paid an aggregate amount of approximately RMB69,636,000 on behalf of the PRC local government. The outstanding amount was acknowledged and agreed by the PRC local government. During the current year, the Group’s management had been in discussions with the PRC local government regarding the settlement of the outstanding sum but was unable to reach a settlement plan nor agree a payment schedule. It is in the opinion of the Company’s directors that the recoverability of this balance is remote. Accordingly, a provision for impairment of the receivable of RMB69,636,000 (approximately HK\$85,244,000) was charged to the consolidated income statement during the fiscal year ended March 31, 2016.

The Group grants an average credit periods ranging from 60 days to 105 days to its customers. The carrying amounts of the trade and other receivables approximate their fair values as these financial assets, which are measured at amortized cost, are expected to be paid within a short period of time, such that the impact of the time value of money is not significant.

At each statement of financial position date, the recoverability of the Group’s trade receivables due from individual customers is assessed based on the credit history of its customers, their financial conditions and current market conditions. Specific impairment provision is recognized, if required.

The carrying amounts of the Group’s trade and other receivables are denominated in the following currencies:

	March 31, 2016 HK\$’000	March 31, 2015 HK\$’000
Hong Kong dollars	1,309	1,256
Renminbi	101,688	514,256
	<u>102,997</u>	<u>515,512</u>

The Group has provided fully for all receivables where recovery of the amounts is remote unless the Group has determined that such balances are not recoverable, in which case the impairment loss is directly written off against the corresponding trade receivables.

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

	March 31, 2016 HK\$’000	March 31, 2015 HK\$’000
At beginning of the year	22,245	24,292
Exchange difference	(1,298)	198
Amount written off as uncollectible	—	(13,873)
Write-back of provision for impairment	(243)	—
Provision for impairment losses	3,410	11,628
At end of the year	<u>24,114</u>	<u>22,245</u>

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Included in trade and other receivables of the Group are trade receivables of HK\$35,565,000 (2015: HK\$418,801,000) and their ageing analysis is as follows:

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
Not past due	924	392,331
More than 120 days past due	34,641	26,470
	<u>35,565</u>	<u>418,801</u>

As of March 31, 2016, trade receivables of HK\$10,527,000 (2015: HK\$4,225,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. Based on past experience, the mortgage applications by customers would take longer than normally required in the locations at which the Group's subsidiaries operated and management believes that no impairment provision is necessary in respect of these balances as there has not been a significant change in credit quality of these receivables and the balances are still considered fully recoverable. The ageing analysis of these trade receivables is as follows:

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
More than 120 days past due	<u>10,527</u>	<u>4,225</u>

As March 31, 2016, trade receivables of HK\$24,114,000 (2015: HK\$22,245,000) were impaired and provided for. The individually impaired receivables mainly relate to customers which are in unexpectedly difficult economic situations. The ageing of these receivables is as follows:

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
More than 120 days past due	<u>24,114</u>	<u>22,245</u>

Movements in the provision for impairment of other receivables are as follows:

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
At beginning of the year	102,955	23,908
Exchange difference	(7,476)	719
Provision for impairment loss	86,298	102,291
Amount written off as uncollectible	—	(23,963)
At end of the year	<u>181,777</u>	<u>102,955</u>

**Note 29—Restricted and Pledged Bank Deposits and Cash and Cash Equivalents**

**(a) Restricted and pledged bank deposits**

As at March 31, 2016, the Group's bank balances amounting to approximately HK\$48,065,000 (March 31, 2015: HK\$24,972,000) were deposited at designated bank accounts in certain banks as guarantee deposits for property ownership certificates not yet transferred from the customers to the banks.

As at March 31, 2016, no bank balances (March 31, 2015: HK\$125,668,000 carried interest at deposit rate of approximately 3% per annum) was pledged for the purpose of securing certain bank loans.

The carrying amounts of the Group's restricted and pledged bank deposits are denominated in RMB.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(b) Cash and Cash Equivalents**

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
Bank balances and cash	<u>270,414</u>	<u>402,675</u>

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
Hong Kong dollars	7,638	6,778
Renminbi	261,704	394,553
United States dollars	1,069	1,340
Others	3	4
	<u>270,414</u>	<u>402,675</u>

The carrying amounts of restricted and pledged bank deposits and cash and cash equivalents approximate their fair values.

The conversion of RMB denominated balances into foreign currencies and the remittance of such currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

**Note 30—Trade Payables, Other Payables and Accruals**

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
Trade payables	951,440	1,127,248
China taxes payable	29,567	64,892
Accrued payroll and employee benefits	4,705	4,077
Guarantee deposits	44,111	95,930
Accrued loan interest payable	69,536	37,187
Accrued charges and other payables (Note)	709,955	349,845
	<u>1,809,314</u>	<u>1,679,179</u>

Note:

Balance included the following:

- (a) During the fiscal year ended March 31, 2015, an aggregate amount of RMB200,000,000, or approximately HK\$253,875,000 was received from a local government related entity by China Glorious City—Hengyang. In April 2015, the amount was remitted to the local government in Hengyang.
- (b) During the fiscal year ended March 31, 2015, an amount of RMB35,000,000, or approximately HK\$44,428,000 was received from an independent third party for the surrender of certain land use rights by the Group. During the fiscal year ended March 31, 2016, a compensation agreement was entered into between the Group and this independent third party where the Company will surrender that land use right with carrying amount of RMB10,956,000, or approximately HK\$13,411,000 to this independent third party in return for a compensation of RMB45,750,000, or approximately HK\$56,004,000. Accordingly, that land use right was reclassified as non-current asset held for sale as at March 31, 2016.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

- (c) During the fiscal year ended March 31, 2015, an aggregate amount of approximately RMB12,193,000, or approximately HK\$15,478,000 was provided for trade disputes with certain contractors for damages claimed, which were primarily attributable to the followings:
- (i) The Company's subsidiary, China Tieling Northeast is involved in a PRC court case brought about by a contractor, Kaiyuan Wei Min Construction Engineering Co., Ltd. ("Wei Min"), regarding a disputed construction contract where Wei Min is claiming damages of approximately RMB9,882,000. The litigation is still ongoing and there has been no material progress as at date of this report. Although a judgement is yet to be issued by local PRC court, the Group is of the opinion that full provision for the claim shall be made and accordingly, the amount was fully provided and has been charged to the consolidated income statement for the fiscal year ended March 31, 2015.
  - (ii) The Company's subsidiary, China Tieling Northeast is involved in a PRC court case brought about by a contractor, Tieling Xin Hai Construction Engineering Co., Ltd. ("Xin Hai"), regarding a disputed construction contract where Xin Hai is claiming damages of approximately RMB1,174,000. The amount was fully provided and has been charged to the consolidated income statement for the fiscal year ended March 31, 2015. During the current fiscal year, a judgement was issued by the PRC court in favour of Xin Hai and the provision made in the prior year is sufficient to cover the damages awarded to Xin Hai by the PRC court, therefore no additional provision is required. The Group has yet to settle the claim with Xin Hai and the balance remained outstanding as at March 31, 2016.
- (d) During the fiscal year ended March 31, 2016, the Group has received funds from various PRC local governments or their branches located in Nanyang, Dezhou and Tieling in the amounts of RMB145,000,000, RMB19,402,000 and RMB11,000,000, respectively. The Group has yet to receive any written confirmations from these authorities confirming the nature of, and conditions attached to, these subsidies.
- (e) During the fiscal year ended March 31, 2016, certain of the Group's construction related guarantee deposits at the amount of RMB16,095,000 was released and the relevant contractors intend to use the amount for the purchase of trade center units from the Group. As at March 31, 2016, a balance of approximately RMB46,905,000, or approximately HK\$56,241,000 remained unutilized. Subsequent to March 31, 2016, the contractors issued a memorandum to the Group that the Group could settle the outstanding balance by way of transferring some of the Group's properties at market price.

The carrying amounts of trade payables, other payables and accruals approximate their fair values and are denominated in the following currencies:

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
Hong Kong dollars	16,173	7,433
Renminbi	1,793,141	1,671,707
United States dollars	—	39
	<u>1,809,314</u>	<u>1,679,179</u>

**Note 31—Receipt in Advance**

As at March 31, 2016 and 2015, receipt in advance represented amounts received from potential buyers of properties under development and completed properties held for sale for the Group's development projects of China Northeast Logistics City—Tieling, China Northeast Logistics City—Dezhou, China Glorious City—Zhoukou and China Glorious City—Hengyang.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 32—Derivative Financial Liabilities**

	March 31, 2016 <u>HK\$'000</u>	March 31, 2015 <u>HK\$'000</u>
Derivative components of convertible bonds (Note (i))	98,604	232,795
Warrants issued in August 2012 (Note (ii))	8,370	17,462
	<u>106,974</u>	<u>250,257</u>

Note:

(i) Derivative components of convertible bonds comprised of:

- (a) On August 15, 2012, the Company issued the 2017 CBs (as defined in note 34(a)) to Willis Plus Limited, a company owned by the majority shareholder of the Company. At issuance, the 2017 CBs have been bifurcated into a derivative and a liability component. Details of the derivative component of the 2017 CBs are set out in note 34(a) to the consolidated financial statements. As at March 31, 2016, the derivative component of the 2017 CBs was recognized at fair value of HK\$66,462,000 (March 31, 2015: HK\$155,713,000); and
- (b) On December 20, 2013, January 27, 2014 and March 20, 2014, the Company issued the 2016 CBs (as defined in note 34(b)) to certain independent third parties, an existing shareholder and the majority shareholder of the Company. At issuance, the 2016 CBs have been bifurcated into derivative and liability components. Details of the derivative component of the 2016 CBs are set out in note 34(b) to the consolidated financial statements. As at March 31, 2016, the derivative components of the 2016 CBs were recognized at fair value of HK\$32,142,000 (March 31, 2015: HK\$77,082,000).

(ii) On August 15, 2012, together with the 2017 CBs (as defined in note 34(a)) issued by the Company, the Company issued warrants to Willis Plus Limited, a company owned by the majority shareholder, to purchase 6,000,000 ordinary shares of the Company at an exercise price of US\$1.2973 with a term of five years. These warrants are exercisable from the first anniversary from date of issuance. At the issuance of these warrants, derivatives financial liabilities were recognized at fair value which approximated HK\$26,267,000. As at March 31, 2016, these warrants were recognized at fair value of HK\$8,370,000 (March 31, 2015: HK\$17,462,000).

The fair values of the warrants as at August 15, 2012 were determined using the binomial valuation model ("Binomial Model"). The significant inputs into the models were volatility of 74%, dividend yield of 0% and risk-free interest rate of 0.8% per annum.

The fair values of the warrants as at March 31, 2016 and 2015 were determined using Binomial Model. The significant inputs into the models were volatility of 75% (2015: 85%), dividend yield of 0% (2015: 0%) and risk-free interest rate of 0.65% (2015: 0.72%) per annum.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 33—Bank and Other Borrowings**

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
<b>Current</b>		
Short-term bank loan—Secured	363,305	394,141
Portion of long-term bank loans repayable within one year—Secured	100,718	134,554
Other borrowings—Unsecured	253,223	93,000
	<u>717,246</u>	<u>621,695</u>
<b>Non-current</b>		
Portion of long-term bank loans repayable after one year—Secured	—	297,033
Other borrowings—Unsecured	—	231,026
	<u>—</u>	<u>528,059</u>
Total bank and other borrowings	<u>717,246</u>	<u>1,149,754</u>

The interest-bearing bank borrowings are carried at amortized cost. The Group does not have any bank borrowings which contain a repayable on demand clause.

The Group's bank and other borrowings are repayable as follows:

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
Within 1 year	717,246	621,695
Between 1 and 2 years	—	528,059
	<u>717,246</u>	<u>1,149,754</u>

Some of the banking facilities are subject to restrictions including restriction on dividend payments, which are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants the drawn down facilities would become repayable on demand.

The Group regularly monitors its compliance with these covenants and is up to date with the scheduled repayments of the term loans. Further details of the Group's management of liquidity risk are set out in Note 6(c) to the consolidated financial statements. As at March 31, 2016, none of the covenants relating to drawn down facilities had been breached (as at March 31, 2015: Nil).

The carrying amounts of bank borrowings approximate their fair values. All bank borrowings are denominated in RMB (March 31, 2015: All bank borrowings are denominated in RMB) and of which HK\$464,023,000 (March 31, 2015: HK\$626,436,000) are carried at variable interest rates ranging from approximately 4.4% to 9.8% per annum (March 31, 2015: 6.4% to 9.8% per annum) and none (March 31, 2015: HK\$199,292,000) are carried at fixed interest rate (March 31, 2015: fixed interest rate ranging from 6.6% to 9.6% per annum). The bank borrowings are secured by certain assets of the Group (Note 38).

The carrying amounts of other borrowings approximate their fair values. Other borrowings of HK\$35,000,000 (March 31, 2015: HK\$93,000,000) and HK\$218,223,000 (March 31, 2015: HK\$231,026,000) are denominated in HK\$ and RMB, respectively, and are carried at fixed interest rate ranging from approximately 15% to 17% per annum (March 31, 2015: 6% to 17% per annum). The other borrowings are unsecured.

As at March 31, 2016, no bank borrowings (March 31, 2015: HK\$116,782,000) were guaranteed by a former director and a shareholder of the Company.

As at March 31, 2016, other borrowings with carrying amount of approximately HK\$218,223,000 (March 31, 2015: HK\$231,026,000) were guaranteed by senior management member of the Company.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 34—Convertible Bonds**

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
2017 CBs (Note (a))	524,133	425,781
2016 CBs (Note (b))	212,655	181,701
	<u>736,788</u>	<u>607,482</u>

**(a) 2017 CBs**

On August 15, 2012, the Company issued (1) US\$60,000,000 principal amount, 14 per cent. guaranteed secured convertible bonds due on August 15, 2017 (the “2017 CBs”) and (2) warrants to purchase 6,000,000 ordinary shares of the Company (the “August 2012 Warrants”), to Willis Plus Limited, a company owned by the majority shareholder of the Company (the “Bondholder”). In addition, the Bondholder has options to convert the 2017 CBs into the ordinary shares of the Company or require the Company to redeem all, but not less than all, of such holder’s 2017 CBs on August 15, 2015. The 2017 CBs are convertible into 55,499,028 ordinary shares of the Company at an initial conversion price of US\$1.0811 per share from its first anniversary at the option of the Bondholder.

The fair value of the derivative component of the 2017 CBs was estimated at the issuance date using Binomial model and its changes in fair value is recognized in the consolidated income statement. The liability component is the difference between the face value of the 2017 CBs and the sum of the fair values of the derivative component of the 2017 CBs and August 2012 Warrants at date of their issuance.

The 2017 CBs recognized in the consolidated statements of financial position is calculated as follows:

	Liability component HK\$'000	Derivative component HK\$'000	August 2012 Warrants HK\$'000	Total HK\$'000
At April 1, 2014	356,246	196,525	24,364	577,135
Decrease in fair value of derivative component/August 2012 Warrants	—	(43,384)	(7,332)	(50,716)
Amortization of deferred loss on derivative component/August 2012 Warrants	—	2,572	430	3,002
Interest expense	135,237	—	—	135,237
Interest paid	(65,702)	—	—	(65,702)
At March 31, 2015 and at April 1, 2015	425,781	155,713	17,462	598,956
Decrease in fair value of derivative component/August 2012 Warrants	—	(91,823)	(9,522)	(101,345)
Amortization of deferred loss on derivative component/August 2012 Warrants	—	2,572	430	3,002
Interest expense	163,869	—	—	163,869
Interest paid	(65,517)	—	—	(65,517)
At March 31, 2016	<u>524,133</u>	<u>66,462</u>	<u>8,370</u>	<u>598,965</u>

The liability component of the 2017 CBs is carried at amortized cost at an effective interest rate of 37.2% per annum. The liability component of the 2017 CBs was reclassified under current liabilities as at March 31, 2015 due to the one-off redemption right on its third anniversary on August 15, 2015. During the fiscal year ended March 31, 2016, the 2017 CBs was reclassified back to non-current liabilities due to the same one-off redemption right was expired without being exercised by the holders of 2017 CBs.

The fair value of the derivative component of the 2017 CBs as at March 31, 2016 was determined using Binomial Model. The significant inputs into the models were volatility of 75% (March 31, 2015: 85%), dividend yield of 0% (March 31, 2015: 0%) and risk-free interest rate of 0.65% (March 31, 2015: 0.72%) per annum.



**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

As of March 31, 2016, the fair values of the liability component of the 2017 CBs were approximately HK\$641,753,000 (March 31, 2015: HK\$484,230,000), which were calculated using cash flows discounted at a rate of 20% (March 31, 2015: 32%) and were within level 3 of the fair value hierarchy.

Under the terms of the 2017 CBs, the Company undertakes to comply with financial covenants as follows:

- (i) Consolidated Tangible Net Worth shall not be less than HK\$1,253,000,000;
- (ii) Consolidated EBIT shall not at any time be less than 2.50 times Consolidated Finance Charges; and
- (iii) Consolidated Total Borrowings shall not at any time exceed 0.85 times Consolidated Tangible Net Worth.

The financial covenants shall be: (i) calculated and interpreted on a consolidated basis in accordance with IFRS and expressed in Hong Kong dollars; and (ii) tested by reference to the latest publicly available financial statements of the Group for each period of twelve months ending on the last day of the financial year and each period of twelve months ending on the last day of the first half of the financial year.

The Company obtained waivers from the holders of the 2017 CBs in prior years in respect of any non-compliance with the above covenants for the year ended March 31, 2016.

**(b) 2016 CBs**

On December 20, 2013, January 27, 2014 and March 20, 2014, the Company issued an aggregate amount of US\$30,000,000, unsecured, 10 per cent convertible bonds due on December 19, 2016, convertible into ordinary shares of the Company (the “2016 CBs”) to certain independent third parties, an existing shareholder and the majority shareholder of the Company, where US\$15,000,000 of which was issued to the majority shareholder. In addition, each of the investors has an option to convert the 2016 CBs into the ordinary shares of the Company or requires the Company to redeem all, but not less than all, of such holder’s 2016 CBs at any time on or after 18 months from the respective issuance dates. All (but not less than all) of the principal amounts of the 2016 CBs of each of the investors are convertible into ordinary shares of the Company at an initial conversion price per share equal to US\$1.30. The 2016 CBs are convertible during their entire tenure. Based on such initial conversion price, 23,076,919 of the Company’s ordinary shares are issuable upon conversion of the 2016 CBs.

The fair value of the derivative component of the 2016 CBs was estimated at the issuance date using Binomial Model and its changes in fair value is recognized in the consolidated income statement. The liability component is the difference between the face value of the 2016 CBs and the sum of the fair values of the derivative component of the 2016 CBs at date of their issuance.

The 2016 CBs recognized in the consolidated statements of financial position is calculated as follows:

	Liability component HK\$'000	Derivative component HK\$'000	Total HK\$'000
At April 1, 2014	155,900	91,368	247,268
Decrease in fair value of derivative component	—	(17,199)	(17,199)
Amortization of deferred loss on derivative component	—	2,913	2,913
Interest expense	46,872	—	46,872
Interest paid	(21,071)	—	(21,071)
At March 31, 2015 and at April 1, 2015	181,701	77,082	258,783
Decrease in fair value of derivative component	—	(47,861)	(47,861)
Amortization of deferred loss on derivative component	—	2,921	2,921
Interest expense	54,354	—	54,354
Interest paid	(23,400)	—	(23,400)
At March 31, 2016	<u>212,655</u>	<u>32,142</u>	<u>244,797</u>

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Each of the liability components of the 2016 CBs issued on December 20, 2013, January 27, 2014 and March 20, 2014 are carried at amortized cost at an effective interest rate of 28.2%, 29.5% and 32.3% per annum, respectively.

The liability components of the 2016 CBs was classified as current liabilities as at March 31, 2015 and 2016 due to the redemption right feature after 18 months from its issuance date.

The fair value of each of the derivative components of the 2016 CBs issued on December 20, 2013, January 27, 2014 and March 20, 2014 at each of their issuance dates were determined using Binomial Model. The significant inputs into the model were volatility of 80%, 80% and 80%, dividend yields of 0%, 0% and 0%, and risk-free interest rates of 0.73%, 0.73% and 0.90% per annum, respectively.

The fair value of the derivative components of the 2016 CBs as at March 31, 2016 was determined using Binomial Model. The significant inputs into the models were volatility of 90% (March 31, 2015: 85%), dividend yield of 0% (March 31, 2015: 0%) and risk-free interest rate of 0.50% (March 31, 2015: 0.55%) per annum.

The fair value of liability components of the 2016 CBs as at March 31, 2016 was HK\$226,699,000 (March 31, 2015: HK\$181,193,000), which was calculated using cash flows discounted at a rate of 20% (March 31, 2015: 32%) and was within level 3 of the fair value hierarchy.

The 2016 CBs do not contain any financial covenants.

Note:

During the fiscal year ended 31 March 2014, total transaction costs directly attributable to the issuance of the 2016 CBs amounted to HK\$352,000 of which HK\$224,000 was attributable to liability component of the 2016 CBs and has been capitalized. The remaining HK\$128,000 was attributable to derivative component of the 2016 CBs and has been expensed to the consolidated income statement during the fiscal year ended 31 March 2014.

**Note 35—Share Capital**

	Number of shares		Share capital	
	2016 ‘000	2015 ‘000	2016 HK\$000	2015 HK\$000
<b>Authorized:</b>				
Preferred share at US\$0.001 each at end of year	200	200	2	2
Ordinary share at US\$0.001 each at end of year	1,000,000	1,000,000	7,793	7,793
	Number of shares		Share capital	
	2016 ‘000	2015 ‘000	2016 HK\$000	2015 HK\$000
<b>Issued and fully paid:</b>				
<u>Preferred share</u>				
At beginning and at end of the year	100	100	1	1
<u>Ordinary shares</u>				
At beginning and at end of year	73,544	73,544	572	572

The Company’s share capital consists of ordinary shares and preferred shares.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 36—Non-Controlling Interests**

The total non-controlling interests as at March 31, 2016 is HK\$7,644,000 (2015: HK\$26,933,000), which is attributable solely to China Northeast Logistics City—Dezhou (“Dezhou Group”).

As at March 31, 2016, cash and short term deposits of HK\$5,556,000 (2015: HK\$3,645,000) are held in China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

Set out below are the summarized financial information for Dezhou Group that has non-controlling interests that are material to the Group. There were no transactions with non-controlling interests during the fiscal years ended March 31, 2016, 2015 and 2014.

Summarized consolidated statements of financial position	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
<b>Current</b>		
Assets	1,207,944	1,319,583
Liabilities	(791,847)	(779,527)
Total	416,097	540,056
<b>Non-current</b>		
Assets	29,078	33,210
Liabilities	(394,216)	(393,710)
Total	(365,138)	(360,500)
<b>Net assets</b>	<u>50,959</u>	<u>179,556</u>
<b>Summarized consolidated income statements</b>	<b>2016 HK\$'000</b>	<b>2015 HK\$'000</b>
Revenue	20,997	12,795
Loss before income tax	(96,054)	(16,715)
Income tax expense	(4,270)	(31,267)
Post-tax loss	(100,324)	(47,982)
Other comprehensive (loss)/income	(28,272)	9,749
Total comprehensive loss	(128,596)	(38,233)
Total comprehensive loss allocated to non-controlling interests	<u>(19,289)</u>	<u>(5,735)</u>
<b>Summarized consolidated cash flows</b>	<b>2016 HK\$'000</b>	<b>2015 HK\$'000</b>
<b>Cash flows from operating activities</b>		
Cash generated from operations	243	408,230
Interest paid	—	(9,147)
Interest received	100	324
Income tax paid	(356)	(45,376)
Net cash (used in)/generated from operating activities	(13)	354,031
Net cash used in investing activities	(21)	(12,225)
Net cash generated from/(used in) financing activities	1,957	(347,506)
Net increase/(decrease) in cash and cash equivalents	1,923	(5,700)
Cash and cash equivalents at beginning of year	5,604	11,260
Effect on foreign exchange rate changes	(241)	44
Cash and cash equivalents at end of year	<u>7,286</u>	<u>5,604</u>

The financial information above is presented before inter-company eliminations.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 37—Share Incentive Plan**

On August 25, 2011, the Company adopted a share incentive plan (the “2011 Share Incentive Plan”). The purposes of the 2011 Share Incentive Plan is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees, directors, advisors or consultants, and to promote the success of the Company’s business. Options granted under the 2011 Share Incentive Plan may be incentive stock options (“Incentive Stock Options”) or non-statutory stock options (“Non-statutory Stock Options”), as determined by the administrator (may be the board of directors (the “Board”) or one or more committees of the Board) at the time of grant of an option. Under the 2011 Share Incentive Plan, the administrator of the Company may grant options to any person being an employee, a director, an advisor or a consultant, of the Group, to subscribe for shares in the Company at a price to be determined by the administrator being:

- (1) In the case of Incentive Stock Options:
  - a. granted to an employee who at the time of grant is a person who owns stock representing more than 10% of the voting power of all classes of stock of the Company or any parent or subsidiary measured as of date of grant, the per share exercise price shall be no less than 110% of the Fair Market Value (as defined below) on the date of grant;
  - b. granted to any other employee, the per share exercise price shall be no less than 100% of the Fair Market Value (as defined below) on the date of grant;
- (2) In the case of a Non-statutory Stock Option, the per share exercise price shall be such price as is determined by the administrator, provided that, if the per share exercise price is less than 100% of the Fair Market Value (as defined below) on the date of grant, it shall otherwise comply with all applicable laws, rules, regulations and requirements, including, but not limited to, all applicable United States federal or state laws, any stock exchange rules or regulations, and the applicable laws, rules or regulations of any other country or jurisdiction where options or restricted stocks are granted under the 2011 Share Incentive Plan or participants reside or provide services, as such laws, rules, and regulations shall be in effect from time to time; and
- (3) Notwithstanding the foregoing, options may be granted with a per share exercise price other than as required above pursuant to a merger or other corporate transaction.

For the purpose of the 2011 Share Incentive Plan, Fair Market Value means, as of any date, the per share fair market value of the ordinary shares of the Company, as determined by the administrator in good faith on such basis as it deems appropriate and applied consistently with respect to participants. Whenever possible, the determination of Fair Market Value shall be based upon the per share closing price for the shares as reported in The Wall Street Journal for the applicable date.

The maximum aggregate number of shares that may be issued under the 2011 Share Incentive Plan is 7,000,000 shares, all of which shares may be issued under the 2011 Share Incentive Plan as Incentive Stock Options. The shares issued under the 2011 Share Incentive Plan may be authorized, but unissued, or reacquired shares. If an award of an option should expire or become unexercisable for any reason without having been exercised in full, or is surrendered pursuant to an option exchange program, the unpurchased shares that were subject thereto shall, unless the 2011 Share Incentive Plan shall have been terminated, become available for future grant under the 2011 Share Incentive Plan. In addition, any shares which are retained by the Company upon exercise of an award of options in order to satisfy the exercise or purchase price for such award of options or any withholding taxes due with respect to such award of options shall be treated as not issued and shall continue to be available under the 2011 Share Incentive Plan and shares issued under the 2011 Share Incentive Plan and later repurchased by the Company at the original purchase price paid to the Company for the shares (including, without limitation, upon repurchase by the Company in connection with the termination of a participant’s continuous service status) shall again be available for future grant under the 2011 Share Incentive Plan.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The 2011 Share Incentive Plan shall be valid and effective for a period of 10 years commencing August 25, 2011.

Details of the principal terms of the 2011 Share Incentive Plan are set out in the proxy of the Company dated July 11, 2011.

No share option has been granted under the 2011 Share Incentive Plan since its adoption.

**Note 38—Pledge of Assets**

At the statement of financial position date, the Group had pledged the following assets to banks to secure banking facilities granted to the Group:

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
Land use rights	38,182	67,742
Investment properties	53,956	458,244
Completed properties held for sale	8,823	9,341
Property, plant and equipment	65,606	189,057
Properties under development	317,467	387,149
Pledged bank deposits (Note 29)	—	125,668
	<u>484,034</u>	<u>1,237,201</u>

**Note 39—Capital Commitments**

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
Capital injection in respect of investments in subsidiaries in the PRC	14,388	—
Capital injection in respect of investment in an associate in the PRC (Note)	95,922	101,550
	<u>110,310</u>	<u>101,550</u>
Capital expenditure in relation to construction of properties contracted for but not provided in the consolidated financial statements	<u>2,420,531</u>	<u>1,361,675</u>

Note:

During the year ended March 31, 2015, the Group entered into an agreement with an independent third party pursuant to which the Group has committed to inject in form of cash or assets into an entity in exchange of 40% equity interest in this entity. As at March 31, 2016, the Group has not injected any cash or assets into this entity while this entity has remained dormant.

**Note 40—Notes to the Consolidated Cash Flows Statements**

***Major Non-Cash Transactions***

The Group has the following major non-cash transactions:

- (i) During the fiscal year ended March 31, 2015, the Company has acquired 100% equity interest in Tieling Shengtai (as defined in note 41), and the consideration of which was satisfied by the Group in form of assuming a loan payable to Tieling Shengtai. Further details are set out in note 41 to the consolidated financial statements.
- (ii) During the fiscal year ended March 31, 2015, the Company injected capital of approximately HK\$7,417,000 into a joint venture in form of a land use right. There was no cash involved in the capital injection. Details of the joint venture are set out in note 24 to the consolidated financial statements.
- (iii) During the fiscal year ended March 31, 2015, the Company utilized the deposits for purchase of land use rights of approximately HK\$465,882,000 for the purchase of land use rights.
- (iv) During the fiscal year ended March 31, 2016, the Company is deemed to have disposed of 60% of its equity interests in two of its subsidiaries, Huayan (as defined in note 42) and Huaqian (as defined in note 42). Further details are set out in note 42 to the consolidated financial statements.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 41—Acquisition of a Subsidiary**

During the fiscal year ended March 31, 2015, the Group entered into an agreement with an independent third party (“Seller”) to acquire 100% equity interest in Tieling Shengtai Hotel Co., Ltd. (“Tieling Shengtai”) for a consideration satisfied by the Group in the form of assuming a loan payable to Tieling Shengtai which was originally due by the Seller to Tieling Shengtai, amounting to RMB15,000,000 (the “Hotel Acquisition”). The Hotel Acquisition was completed on May 20, 2014.

The goodwill arising from the Hotel Acquisition is attributable to the Group’s expectation on Tieling Shengtai to enable the Group to provide better integrated service for its development of China Northeast Logistics City –Tieling. None of the goodwill recognized is expected to be deductible for income tax purposes.

The following table summarizes the consideration paid for Tieling Shengtai, the fair value of assets acquired, and liabilities assumed at the acquisition date.

	<u>HK\$’000</u>
<b>Consideration at May 20, 2014</b>	
Other payable assumed	18,860
<b>Recognized amounts of identifiable assets acquired and liabilities assumed</b>	
Cash and cash equivalents	1,481
Property, plant and equipment	166,671
Trade and other receivables	19,419
Trade and other payables	(92,214)
Receipt in advance	(718)
Bank loan	(76,698)
Total identifiable net assets	17,941
Goodwill (Note 21)	919
Total	<u>18,860</u>

Insignificant acquisition-related costs have been charged to administrative expenses in the consolidated income statement for the fiscal year ended March 31, 2015.

The revenue included in the consolidated statement of comprehensive income since May 20, 2014 contributed by Tieling Shengtai was HK\$1,057,000. Tieling Shengtai also contributed loss of HK\$34,235,000 over the same period.

Had Tieling Shengtai been consolidated from April 1, 2014, the consolidated statement of comprehensive income for the year ended March 31, 2015 would show pro-forma revenue of HK\$1,401,552,000 and profit of HK\$50,550,000.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 42—Deemed Disposal of Subsidiaries**

During the fiscal year ended March 31, 2016, the Company's subsidiary, China Glorious City (Hengyang) Co., Ltd. entered into two co-operation agreements (the "Co-Operation Agreements") with the Hengyang JV Partners under which the Hengyang JV Partners became the shareholder of Huayan and Huaqian by injecting additional capital into Huayan and Huaqian which entitle the Hengyang JV Partners to own 60% equity interests in each of Huayan and Huaqian. As a result of the new shareholding structure and capital, the Company's interests in Huayan and Huaqian were diluted from 100% to 40%, and the Company is deemed to have disposed of 60% of its equity interests in Huayan and Huaqian.

The following is an analysis of the net assets on the date which Huayan and Huaqian were being deemed to be disposed of:

	<u>HKS'000</u>
Carrying amount of net assets deemed to be disposed of:	
Land use rights	480,671
Prepayment	616
Cash and cash equivalents	136
Other payables and accruals	<u>(423,443)</u>
Net assets	57,980
Gain on deemed disposal of subsidiaries (Note 10)	<u>133,330</u>
	<u>191,310</u>
Satisfied by:	
Interests in joint ventures measured at fair value	<u>191,310</u>
Release of reserve upon deemed disposal of subsidiaries	<u>439</u>

An analysis of the net outflow of cash and cash equivalents in respect of the deemed disposal of subsidiaries is as follows:

	<u>HKS'000</u>
Cash consideration received	—
Cash and bank balances disposed of	<u>(136)</u>
Net outflow of cash and cash equivalents in respect of the deemed disposal of subsidiaries	<u>(136)</u>

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 43—Operating Lease Arrangements**

***The Group as lessee***

At the statement of financial position date, the Group had outstanding commitments for the future minimum lease payments in respect of non-cancellable operating leases which fall due as follows:

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
Operating leases which expire:		
Within one year	6,622	2,020
In the second to fifth year inclusive	21,509	2,303
Beyond 5 years	25,388	—
	<u>53,519</u>	<u>4,323</u>

***The Group as lessor***

Property rental income earned during the year was HK\$4,189,000 (2015: HK\$2,944,000). Most of the investment properties held have committed tenants for the next one to three years.

At the statement of financial position date, the Group had contracted with tenants for the following future minimum lease receivables:

	March 31, 2016 HK\$'000	March 31, 2015 HK\$'000
Within one year	995	1,412
In the second to fifth year inclusive	226	948
	<u>1,221</u>	<u>2,360</u>

**Note 44—Contingent Liabilities**

The Group had financial guarantees as at March 31, 2016 amounting to HK\$1,002,205,000 (2015: HK\$377,422,000) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. Such guarantees will terminate upon the earlier of (i) issuance of the property ownership certificates which are generally available within six months to one year after the purchasers take possession of the relevant properties; and (ii) the satisfaction of mortgage loans by the purchasers of properties. The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the consolidated financial statements for the guarantees.

Save as disclosed above and elsewhere in the consolidated financial statements, the Group had no other significant contingent liabilities at March 31, 2016 and 2015.



**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 45—Related Party Transactions**

The Group entered into the following related party transactions, which were carried out in the ordinary course of the Group's business.

<u>Related party relationship</u>	<u>Nature of transaction</u>	<u>2016 HK\$'000</u>	<u>2015 HK\$'000</u>	<u>2014 HK\$'000</u>
Key management personnel including directors	Salaries and other allowance	7,199	5,926	3,714
	Retirement benefit	54	30	15
		<u>7,253</u>	<u>5,956</u>	<u>3,729</u>
	Interest expense arising from convertible bonds	25,804	10,268	—
An entity which is controlled by the majority shareholder of the Company	Operating lease rental and management fees on rented premises	1,079	915	367
	Design fees in respect of a property development project	—	—	1,121
	Interest expenses arising from convertible bonds	163,869	135,237	115,097
		<u>163,869</u>	<u>135,237</u>	<u>115,097</u>
The majority shareholder	Interest expense arising from convertible bonds	27,833	23,858	2,494
	Interest expense arising from other loans	<u>24,553</u>	<u>5,481</u>	<u>—</u>

Save as disclosed in notes 32, 33, 34 and 46 to the consolidated financial statements, there were no other significant related party transactions.

**Note 46—Balances with Related Parties and Equity Holders**

The loan from a non-controlling interest of HK\$58,800,000 is unsecured and interest-free which is not repayable within one year as at March 31, 2016 (2015: HK\$58,800,000 with the same terms).

The loan from the majority shareholder as at March 31, 2016 of HK\$50,000,000 is unsecured, bears a fixed interest rate of 15% p.a. and is repayable within one year from January 20, 2016 (2015: Nil).

The loans from the majority shareholder as at March 31, 2016 of HK\$30,000,000, HK\$35,000,000 and HK\$45,000,000 are unsecured, bear a fixed interest rate of 16% p.a. and repayable at the Company's option within two years from September 19, 2014 September 22, 2014 and April 1, 2015, respectively (2015: HK\$30,000,000 and HK\$35,000,000 with the same terms).

The loan from the majority shareholder as at March 31, 2016 of HK\$55,000,000 is unsecured, bears a fixed interest rate of 15% p.a. and repayable within two years from August 4, 2015 (2015: Nil).

The amounts due from joint ventures are unsecured, interest-free and have no fixed terms of repayment as at March 31, 2016 (2015: Nil). The amounts due from joint ventures of RMB260,880,000 was settled subsequent to 31 March, 2016.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The Group also had the following significant balances with other related parties.

<u>Related party relationship</u>	<u>Nature of transaction</u>	<u>March 31, 2016 HK\$'000</u>	<u>March 31, 2015 HK\$'000</u>
An entity which is controlled by the majority shareholder of the Company	Convertible bonds	468,000	468,000
	Bond interest payables	8,235	8,165
The majority shareholder	Convertible bonds	117,000	117,000
	Bond interest payables	3,269	3,269
	Unsecured loans	215,000	65,000
	Loan interest payables	3,106	324
Key management personnel	Other receivables	—	868
	Convertible bonds	117,000	78,000
	Bond interest payables	2,191	2,179
	Temporary advance to the Group	<u>8,803</u>	<u>—</u>

Save as disclosed above, there were no other significant balances with related parties.

**Note 47—Post Balance Sheet Events**

On May 20, 2016, the Company announced plans to effectuate a going-private transaction (the “Privatization”) through a merger with an indirect wholly-owned subsidiary. Holders of the Company’s ordinary shares—other than certain specified affiliates, other holders, and holders who properly perfect applicable dissenters’ rights—should expect to receive US\$1.03 in cash, without interest upon the consummation of the Privatization. Following the Privatization, the Company plans to terminate the Company’s public reporting obligations (and associated costs) under the Exchange Act and to delist from the NYSE MKT.

**Note 48—US Dollar Equivalents**

The US dollar equivalents of the figures shown in the consolidated financial statements are supplementary information and have been translated at HK\$7.8 to US\$1.0, representing the rate for U.S. dollar in New York for cable transfers in Hong Kong dollars as certified for custom purposes by the Federal Reserve Bank of New York. Such translation should not be construed as representations that the Hong Kong dollar amounts represent, or have been or could be converted into, US dollars at that or any other rate.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 49—Particulars of Subsidiaries**

Particulars of the Company's principal subsidiaries at March 31, 2016 and 2015 are as follows:

Name of subsidiary	Place of incorporation / establishment or registration / operation	Issued and fully paid share capital / registered capital	Proportion of nominal value of issued capital / registered capital held by the Company (Note (i))		Principal activities
			2016	2015	
M.S. Electronic Emporium Limited	British Virgin Islands	Ordinary shares US\$100	100%	100%	Inactive
China Metro-Rural Limited	British Virgin Islands	Ordinary shares US\$1	100%	100%	Investment holding
China Metro-Rural Exchange Limited	Hong Kong	Ordinary shares HK\$10,000	100%	100%	Investment holding
China Northeast Logistics City Co., Ltd. ^ 鐵嶺東北物流城有限公司 (Note (ii))	PRC	Registered capital US\$35,000,000	100%	100%	Operating of agricultural logistic platform
Tieling North Asia Development Co., Ltd. ^ 鐵嶺北亞發展有限公司	PRC	Registered capital RMB5,000,000	100%	100%	Not yet commenced operation
Tieling Northeast City Advertising Co., Ltd. ^ 鐵嶺東北城廣告有限公司	PRC	Registered capital RMB300,000	100%	100%	Not yet commenced operation
Tieling North Asia Property Management Co., Ltd.^ 鐵嶺北亞物業管理有限公司	PRC	Registered capital RMB500,000	100%	100%	Provision of property management and related service
Tieling Northeast City Motor Vehicle Trading Co., Ltd.^ 鐵嶺東北城機動車交易有限公司	PRC	Registered capital RMB5,000,000	100%	100%	Not yet commenced operation
Tieling Shengtai Hotel Co., Ltd. ^ 鐵嶺市晟泰酒店有限公司	PRC	Registered capital RMB10,000,000	100%	100%	Hotel operations
China Metro-Rural Development Limited	Hong Kong	Ordinary shares HK\$100	85%	85%	Investment holding
China Northeast Logistics City Dezhou Co., Ltd.^ 德州東北商貿物流城有限公司 (Note (ii))	PRC	Registered capital US\$49,990,000	85%	85%	Operating of agricultural logistic platform
Dezhou Northeast City Property Co., Ltd.^ 德州東北城商貿置業有限公司	PRC	Registered capital RMB50,000,000	85%	85%	Not yet commenced operation
Dezhou North Asia Property Management Co., Ltd.^ 德州北亞物業管理有限公司	PRC	Registered capital RMB2,000,000	85%	85%	Not yet commenced operation
Dezhou North Asia Property Co., Ltd.^ 德州北亞置業有限公司	PRC	Registered capital RMB30,000,000	85%	85%	Not yet commenced operation
China Northeast Logistics City Shenzhen Co., Ltd.^ 深圳東北城商貿有限公司	PRC	Registered capital RMB10,000,000	100%	100%	Management company
China Glorious City Construction Limited	Hong Kong	Ordinary shares HK\$100	100%	100%	Not yet commenced operation
China Glorious City Development Limited	Hong Kong	Ordinary shares HK\$100	100%	100%	Investment holding

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Name of subsidiary	Place of incorporation / establishment or registration / operation	Issued and fully paid share capital / registered capital	Proportion of nominal value of issued capital / registered capital held by the Company (Note (i))		Principal activities
			2016	2015	
China Glorious City (Hengyang) Co., Ltd.^ 華耀城(衡陽)有限公司 (Note (ii))	PRC	Registered capital US\$30,000,000	100%	100%	Operating of logistic platform and rural-urban migration and city re-development businesses
Hengyang Huayan Property Co., Ltd.^ 衡陽華雁置業有限公司 (Note (iv))	PRC	Registered capital RMB30,000,000	N/A	100%	Not yet commenced operation
Hengyang Huaqian Property Co., Ltd.^ 衡陽華乾置業有限公司 (Note (iv))	PRC	Registered capital RMB20,000,000	N/A	100%	Not yet commenced operation
Hengyang Glorious City Business Co., Ltd.^ 衡陽華耀城商業有限公司	PRC	Registered capital RMB17,000,000	100%	100%	Not yet commenced operation
Hengyang Glorious City Logistics Co., Ltd.^ 衡陽華耀城物流有限公司	PRC	Registered capital RMB1,300,000	100%	100%	Not yet commenced operation
China Glorious City Investments Limited	Hong Kong	Ordinary shares HK\$100	100%	100%	Investment holding
China Glorious City Investments (Zhoukou) Co., Ltd.^ 華耀城投資(周口)有限公司 (Note (ii))	PRC	Registered capital US\$20,000,000	100%	100%	Operating of logistic platform and rural-urban migration and city re-development businesses
Zhoukou China Glorious Property Co., Ltd.^ 周口華耀置業有限公司	PRC	Registered capital RMB10,000,000	100%	100%	Not yet commenced operation
Zhoukou Dongyao Industries Co., Ltd.^ 周口東耀實業有限公司 (Note (iii))	PRC	Registered capital RMB30,000,000	100%	—	Not yet commenced operation
China Glorious City Strategic Limited	Hong Kong	Ordinary shares HK\$100	100%	100%	Investment holding
China Glorious City Strategic (Zhoukou) Co., Ltd. ^ 華耀城策劃(周口)有限公司 (Note (ii))	PRC	Registered capital US\$10,000,000	100%	100%	Operating of logistic platform and rural-urban migration and city re-development businesses
Zhoukou Huayu Industries Co., Ltd. ^ 周口華裕實業有限公司	PRC	Registered capital RMB20,000,000	100%	100%	Not yet commenced operation
Zhoukou Huahui Commercial Real Estates Co., Ltd. ^ 周口市華滙商業地產有限公司 (Note (iii))	PRC	Registered capital RMB20,000,000	100%	100%	Not yet commenced operation
China Glorious City Holdings Limited 華耀城控股有限公司 (Note (iii))	Hong Kong	Ordinary shares HK\$100	100%	100%	Investment holdings

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Name of subsidiary	Place of incorporation / establishment or registration / operation	Issued and fully paid share capital / registered capital	Proportion of nominal value of issued capital / registered capital held by the Company (Note (i))		Principal activities
			2016	2015	
China Glorious City (Shenzhen) Industries Co., Ltd. ^ 華耀城(深圳)實業有限公司 (Note (iii))	PRC	Registered capital HK\$250,000,000	100%	—	Investment holdings
China Glorious City (Handan) Industries Co., Ltd. ^ 華耀城(邯鄲)實業有限公司 (Note (iii))	PRC	Registered capital RMB400,000,000	100%	—	Operating of logistic platform and rural-urban migration and city re-development businesses
China Glorious City (Handan) Business Co., Ltd. ^ 華耀城(邯鄲)商業有限公司 (Note (iii))	PRC	Registered capital RMB5,000,000	100%	—	Not yet commenced operation
Handan Huahui Business Co., Ltd. ^ 邯鄲華滙商業有限公司 (Note (iii))	PRC	Registered capital RMB5,000,000	100%	—	Not yet commenced operation
Handan Yaomin Logistics Co., Ltd. ^ 邯鄲耀民物流有限公司 (Note (iii))	PRC	Registered capital RMB2,000,000	100%	—	Not yet commenced operation
China Glorious City (Nanyang) Industries Co., Ltd. ^ 華耀城(南陽)實業有限公司 (Note (iii))	PRC	Registered capital RMB 300,000,000	100%	—	Operating of logistic platform and rural-urban migration and city re-development businesses
China Glorious City (HK) Industries Limited 華耀城(香港)實業有限公司 (Note (iii))	Hong Kong	Ordinary shares HK\$500,000	100%	—	Inactive

Note:

- (i): The Company directly holds China Metro-Rural Limited and M.S. Electronic Emporium Limited. All other interests shown above are indirectly held by the Company.  
(ii): These subsidiaries registered or operated in the PRC are wholly foreign owned enterprises.  
(iii): Incorporated/registered during the current year.  
(iv): During the current year, the Company is deemed to have disposed of 60% equity interests in these subsidiaries and accordingly they have been accounted for as joint ventures of the Company. Further details are set out in notes 24 and 42 to the consolidated financial statements.

The symbol of “^” represents the English name of the subsidiary for identification purpose only.

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Note 50—Condensed financial information of the parent company**

**Statements of Comprehensive Income**  
**For the years ended March 31, 2016, 2015 and 2014**

	2016 US\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Other gains, net	19,209	149,827	60,153	87,669
Administrative expenses	(1,728)	(13,477)	(12,384)	(12,456)
Operating profit	17,481	136,350	47,769	75,213
Finance income	—	—	—	—
Finance costs	(31,931)	(249,063)	(199,251)	(132,016)
Finance costs – net	(31,931)	(249,063)	(199,251)	(132,016)
Loss before income tax	(14,450)	(112,713)	(151,482)	(56,803)
Income tax expense	—	—	—	—
<b>Total comprehensive loss for the year</b>	<u>(14,450)</u>	<u>(112,713)</u>	<u>(151,482)</u>	<u>(56,803)</u>

**Statements of Financial Position**  
**As at March 31, 2016 and 2015**

	2016 US\$'000	2016 HK\$'000	2015 HK\$'000
<b>Non-current assets</b>			
Investments in subsidiaries	128,673	1,003,649	1,003,649
<b>Current assets</b>			
Due from subsidiaries	121,531	947,945	889,200
Prepayments and other receivables	129	1,003	959
Cash and cash equivalents	534	4,169	4,537
	<u>122,194</u>	<u>953,117</u>	<u>894,696</u>
<b>Current liabilities</b>			
Other payables and accruals	2,061	16,073	7,472
Derivative financial liabilities	13,715	106,974	250,257
Due to subsidiaries	25,969	202,562	118,052
Other borrowings	4,487	35,000	93,000
Loans from a shareholder	20,513	160,000	—
Convertible bonds (Note 34)	27,263	212,655	607,482
	<u>94,008</u>	<u>733,264</u>	<u>1,076,263</u>
Net current assets/(liabilities)	28,186	219,853	(181,567)
Total assets less current liabilities	<u>156,859</u>	<u>1,223,502</u>	<u>822,082</u>
<b>Non-current liabilities</b>			
Convertible bonds (Note 34)	67,197	524,133	—
Loans from a shareholder	7,051	55,000	65,000
	<u>74,248</u>	<u>579,133</u>	<u>65,000</u>
Net assets	<u>82,611</u>	<u>644,369</u>	<u>757,082</u>
<b>Equity</b>			
Share capital	73	573	573
Reserves	82,538	643,796	756,509
	<u>82,611</u>	<u>644,369</u>	<u>757,082</u>

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Statements of Cash Flows**  
**For the years ended March 31, 2016, 2015 and 2014**

	2016 US\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
<b>Cash flows from operating activities</b>				
<b>Cash from/(used in) operations</b>	9,864	76,937	(13,317)	(11,643)
Interest received	—	—	—	—
Interest paid	(15,231)	(118,799)	(101,141)	(74,426)
<b>Net cash used in operating activities</b>	<u>(5,367)</u>	<u>(41,862)</u>	<u>(114,458)</u>	<u>(86,069)</u>
<b>Cash flows from investing activities</b>				
<b>Decrease/(increase) in amounts with subsidiaries and net cash generated from/</b>				
<b>(used in) from investing activities</b>	<u>(6,475)</u>	<u>(50,506)</u>	<u>1,562</u>	<u>(225,213)</u>
<b>Cash flows from financing activities</b>				
Proceeds from other borrowings	—	—	93,000	120,000
Repayments of other borrowings	(7,436)	(58,000)	(43,000)	(77,000)
Loans from a shareholder	19,231	150,000	65,000	—
Proceeds from issuance of convertible bonds, net of direct expenses	—	—	—	233,648
<b>Net cash generated from financing activities</b>	<u>11,795</u>	<u>92,000</u>	<u>115,000</u>	<u>276,648</u>
Net (decrease)/increase in cash and cash equivalents	(47)	(368)	2,104	(34,634)
Cash and cash equivalents at beginning of the year	581	4,537	2,433	37,067
Cash and cash equivalents at end of the year	<u>534</u>	<u>4,169</u>	<u>4,537</u>	<u>2,433</u>

- Note 50 has been provided pursuant to the requirements of Rule 12-04(a) and 5-04(c) of Regulation S-X, which require condensed financial information as to the financial position, changes in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year.
- The condensed financial information of China Metro-Rural Holdings Limited has been prepared using the same accounting policies as set out in the accompanying consolidated financial statements except that the cost method has been used to account for investments in its subsidiaries.

A reconciliation of the (loss)/profit and equity of the parent company only between cost method of accounting and equity method of accounting for investments in its subsidiaries are as follows:

	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
<b>(Loss)/Profit Reconciliation</b>			
Loss of the parent company only under cost method of accounting	(112,713)	(151,482)	(56,803)
Additional (loss)/profit if subsidiaries had been accounted for using equity method of accounting as opposed to cost method of accounting	(288,993)	81,618	70,870
<b>(Loss)/profit of the parent company only under equity method of accounting</b>	<u>(401,706)</u>	<u>(69,864)</u>	<u>14,067</u>
<b>Equity Reconciliation</b>			
Equity of the parent company only under cost method of accounting	644,369	757,082	
Additional profit if subsidiaries had been accounted for using equity method of accounting as opposed to cost method of accounting	408,049	697,042	
<b>Equity of the parent company only under equity method of accounting</b>	<u>1,052,418</u>	<u>1,454,124</u>	

**CHINA METRO-RURAL HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

3. Certain information and footnote disclosures normally included in financial statements prepared in accordance with IFRSs have been condensed or omitted. The footnote disclosures contain supplemental information relating to the operations of the Company and, as such, these statements should be read in conjunction with the notes to the consolidated financial statements of the Company.
4. As of March 31, 2016 and 2015, there were no material contingencies, significant provisions of long-term obligations, mandatory dividend or redemption requirements of redeemable stocks or guarantees of the Company, except for those which have been separately disclosed in the consolidated financial statements, if any.



**THIS LOAN AGREEMENT made this 1st April, Two Thousand and Fifteen.**

**BETWEEN :**

- (I) CHINA METRO-RURAL HOLDINGS LIMITED (中國城鄉控股有限公司)**, a company incorporated in the British Virgin Islands whose registered office is situate at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands, and is listed on the NYSE MKT under the ticker symbol “CNR” (“the Borrower”);
- (II) CHENG CHUNG HING (鄭松興), [ID and address not disclosed]** (“the Lender”).

**WHEREAS :-**

The Borrower is desirous of borrowing an unconditional and unsecured fixed term loan from the Lender for business purpose and the Lender has agreed to advance a loan of **Forty-five Million Hong Kong Dollars only** (“the Loan”) to the Borrower effective from **April 1, 2015** (“the Date of the Advance”) upon the Borrower entering into the covenants and obligations hereinafter contained.

**NOW IT IS HEREBY AGREED** by the parties hereto as follows :-

## 1. REPAYMENT

- 1.1 Subject to and without prejudice to other provisions, terms or conditions herein contained the BORROWER hereby COVENANTS with the Lender that the Borrower shall repay the Lender in full the Loan within **Two** calendar years from the Date of Advance (“Maturity Date”) with interest at **16% per annum**, with effect from the Date of the Advance until repayment of whole Loan.
- 1.2 Interest of the Loan is to be compounded on an annual basis, payable semi-annually on **March 31, September 30** of each calendar year with the first such compounding to be paid on **September 30, 2015**.
- 1.3 Early repayment of the Loan can be made after anytime from the Date of the Advance with no additional interest and penalty.
- 1.4 If the Borrower is late or default in repayment of loan and/or payment of interest, 2% penalty calculated on monthly basis will be applied to the loan and/or overdue interest until repayment of loan and/or payment of interest from Borrower.

## 2. TRANSFER

This Agreement may be assigned or transferred in whole only by the Lender and the Borrower shall upon receipt of the notice of such assignment or transfer facilitate any such assignment or transfer of the Agreement.

3. GOVERNING LAW AND JURISDICTION

3.1 This Agreement shall be governed by and construed in accordance with the laws of Hong Kong S.A.R.

3.2 The Borrower agrees that any legal action or proceeding arising out of or relating to this Agreement may be brought in the courts of Hong Kong S.A.R. and irrevocably submits to the non-exclusive jurisdiction of such courts.

4. DECLARATION

The Lender hereby DECLARE that the Lender had sought independent legal advice in respect of this transaction and the contents of this Agreement.

IN WITNESS whereof the parties hereto have duly executed this Agreement the day and year first above written.

SIGNED by Sio Kam Seng )  
For and on behalf of )  
CHINA METRO-RURAL )  
HOLDINGS LIMITED )  
(中國城鄉控股有限公司),  
the Borrower in the presence of :-

SIGNED by )  
the Lender in the presence of :- )  
)

Dated : 1<sup>st</sup> April 2015

\*\*\*\*\*

**CHINA METRO-RURAL HOLDINGS LIMITED**  
(中國城鄉控股有限公司)

and

**CHENG CHUNG HING**  
(鄭松興)

\*\*\*\*\*

**LOAN AGREEMENT**

\*\*\*\*\*

ICBC

Working Capital Loan Contract

Contract Number: [Not disclosed in this translation]

The Lender: ICBC Hengyang Hua Xin Branch

The Borrower: China Glorious City (Hengyang) Co., Ltd.

This Contract regarding the loan grant to the Borrower by the Lender, is entered into upon mutual agreement between the Borrower and the Lender through negotiation.

### Part I: Basic Agreement

#### 1. Use of Loan Proceeds

The Loan under this Contract shall be used for the following purpose. Without the written consent of the Lender, the Borrower shall not use the Loan for any other purposes and the Lender shall have the right to supervise the use of the Loan.

Purpose of the Loan: Marketing expenses

#### 2. Loan Amount and Tenure

2.1 The currency of the Loan under this Contract is RMB. The amount shall be 100,000,000 (In words: **One Hundred million**).

2.2 The term of the Loan under this Contract is 12 months from the date of drawdown (in case of multiple drawdowns, from the date of first drawdown), the actual drawdown date to be determined based on the date of the drawdown voucher.

#### 3. Interest Rate, Interest and Fees

3.1 [Determination Method of RMB Loan Interest Rate]

RMB loan interest rate shall be based on method 2 below:

- (1) Fixed rate, annual interest rate of [blank]% which remain unchanged throughout the tenure of the Loan.
- (2) Floating rate, the Loan interest rate shall be based on the base lending rate as published by the People's Bank of China for loans with tenure similar to that stated in 2.2 of this Contract as of date of drawdown, plus a margin of 5%. From date of drawdown by the Borrower, the interest rate shall be reset at end of each period of 12 months, whereas interest shall be calculated in segment. The interest rate reset date for 2nd period shall be the corresponding date when first period is fall due. In case where the month when the interest rate shall be reset does not contain a corresponding date to the drawdown, the last day of that month shall be used as interest rate reset date. This method shall be applied throughout all subsequent period. In case of multiple drawdowns by the Borrower, the interest rate shall be reset using method A below:
  - A. Regardless the number of drawdowns during a period, interest rate fixed for that period shall be implemented for those drawdowns and to be reset during the next period.
  - B. Interest rate shall be set and reset for each drawdown.

(3) Other: [blank]:

3.2 [Determination Method of Foreign Currency Loan Interest Rate]

Foreign currency loan interest rate shall be based on method [blank] below:

- (1) Fixed rate, annual interest rate of [blank]% which remain unchanged throughout the tenure of the Loan.

- (2) Floating rate, the Loan interest rate shall be **[blank]** months **[blank]** (LIBOR/HIBOR) as base lending rate plus **[blank]** basis points (each basis point represents 0.01%). The spread shall remain fixed throughout the tenure of the Loan. In case of multiple drawdown, interest rate shall be determined individually for each drawdown. Subsequent to drawdown by the Borrower, the interest rate shall be calculated in segment and reset using method **[blank]** below:
- A. The base interest rate shall be floating based on its corresponding period. The interest rate reset date for the 2nd period shall be one day after when the first period fall due. In case where the month when the interest rate shall be reset does not contain a corresponding date to the drawdown, the last day of that month shall be used as interest rate reset date. This method shall be applied throughout all subsequent period.
- B. The base interest rate shall be reset on first day of each interest calculation period.
- (3) Other: **[blank]**:
- 3.3 The interest for the Loan under this Contract shall be calculated and settled on a monthly basis. Principal of the Loan shall be repaid together with any unpaid interest upon maturity. Daily interest rate shall be annual interest rate/360 days.
- 3.4 Penalty interest rate for any overdue payments of interest and the Loan under this Contract shall be **50%** on top of the original interest rate applicable to the Loan at the time. Penalty interest rate for any misappropriation of the Loan under this Contract shall be **100%** on top of the original interest rate applicable to the Loan at the time.
- 3.5 In addition to interest, the Borrower shall also pay to the Lender a commitment fee. The commitment fee payable by the Borrower to the Lender shall be calculated based on the difference between the Loan granted (as stipulated in clause 2) and the amount drawn down (average during the fee calculation cycle) multiply by a rate of **[blank]%** per annum and shall be paid under method **1** below:
- (1) Pay in full upon the expiry of the fee calculation cycle.
- (2) Upon the effectiveness of this Contract, payable by installments on the 20th day of each **[blank]** (month/quarter/year), until the expiry of fee calculation cycle.

In case where the Loan under this Contract can be revolved, the fee calculation cycle refers to the period in which the Loan may be revolved. In case where the Loan under this Contract may not be revolved, the fee calculation cycle refers to period from date of this Contract to the date of the final drawdown of the Loan.

In case where commitment fee is payable by installments and the Borrower fails to settle the commitment fee, the Lender has the right to stop or cancel the granting any unutilized portion of the Loan.

#### 4. Drawdown (Not Applicable to Revolving Loan)

- 4.1 The Borrower shall make drawdown of the Loan according to its needs using method **2** below:
- (1) Entirety of the Loan in a single drawdown on or before **[blank]**;
- (2) Entirety of the Loan in a single or multiple drawdowns from date of this Contract to **April 6, 2016**;
- (3) To make drawdown based on the following timetable. In case where the Borrower wishes to change the drawdown timetable based on its needs, consent must be obtained from the Lender and the Borrower shall complete its drawdowns before **[blank]**.

Drawn down date  
**Blank**

Drawdown amount  
**Blank**

- 4.2 In case where the Borrower fails to make drawdown in a manner as agreed under this Contract, the Lender has the right to cancel part or all of the unutilized portion of the Loan.

#### 5. Repayment

- 5.1 The Borrower shall repay the Loan under this Contract based on method **1** below:

- (1) To repay the Loan in full upon maturity.
- (2) To repay the Loan based on the following repayment schedule:

Planned repayment date  
**Blank**

Planned repayment amount  
**Blank**

- 5.2 In case where the Loan under this Contract is obtained under the following circumstances, the Borrower shall repay the Loan immediately after corresponding funds has been received. The Borrower shall not be liable to any compensation for early repayment of the Loan arising from this circumstances.

**[Blank]**

- 5.3 In case other than circumstances agreed in clause 5.2, the Borrower shall pay to the Lender a compensation for early repayment of the Loan, calculated based on the following:

Amount early repaid  $\times$  remainder of the Loan tenure in months  $\times$  0.1%, in case where the remainder of the Loan tenure is less than one month, one month shall be used.

6. **Revolving Loan Special Agreement** (elective clause, this clause is ☐ applicable ☒ not applicable)

7. **Undertakings**

- 7.1 The Loan under this Contract is secured by way of **Pledge of assets**.

- 7.2 In case where the Loan under this Contract is secured by way of guarantee with maximum ceiling limit, the details of guarantee contract with maximum ceiling are as follows:

Maximum Ceiling Limit Guarantee Contract Name: **Maximum Ceiling Limit Pledge of Assets Contract** (Contract Number: **0190500017-2015Nian Hua Xin (Di) Zi No. 006**)

Guarantor: **China Glorious City (Hengyang) Co., Ltd.**

8. **Financial Covenants** (elective clause, this clause is ☐ applicable ☒ not applicable)

9. **Resolution of Disputes**

Resolution of disputes arising under this Contract shall be resolved use method 2 below:

- (1) Through submission of the dispute to **[blank]** arbitration committee, and to carry out the arbitration in **[blank]** (location) in accordance with the rules and regulations of such arbitration committee that are in effect at the time of submission. The ruling from the arbitration shall be final and shall be binding to both parties.
- (2) Through litigation at local court to which where the Lender is located.

10. **Others**

- 10.1 There are six copies of this Contract, 2 copies for the Borrower, 2 copies for the Lender and 2 copies for Land Bureau, all copies carry the same legal status.

- 10.2 The following appendices and other attachments that have been confirmed by both parties shall form an integral and inseparable part of this Contract and shall bear the same legal effect as this Contract:

Appendix 1: Drawdown Application (Form)

Appendix 2: Entrusted Payment Agreement

11. **Other Agreed Matters**

**1. The Borrower shall ensure that the repayment ratio from sales shall not be lower than industry ratio by the Lender.**

**2. The Borrower shall strictly use the funds from the Loan for purpose as approved by the Lender. In case the funds are being misused, the Borrower accepts measures carry out by the Lender to withdraw the Loan and related interest, and will actively raise funds to repay the Loan and interest.**

## **Part II: Detailed Terms**

### **1. Interest Rate and Interest**

- 1.1 In case of foreign currency loan, LIBOR shall be interbank offered rate displayed on the Reuters terminal under the page of "LIBO=" for the same currency as the Loan under this Contract two bank business days before the drawdown day or reset day at 11:00am London time; HIBOR shall be interbank offered rate displayed on the Reuters terminal under the page of "HIBO=" for the same currency as the Loan under this Contract two bank business days before the drawdown day or reset day at 11:15am Hong Kong time.



- 1.2 In case where floating interest rate is used for the Loan under this Contract, the interest rate reset rules shall continue to apply subsequent to overdue in payments.
- 1.3 The interest of the Loan shall be calculated on monthly basis and shall be on the 20th day of the month; In case of settlement of interest on quarterly basis, the 20th day of last month of each quarter; In case of settlement of interest on half yearly basis, June 20 and December 20 of each year.
- 1.4 The first interest period is from the day on which the Borrower has drawn down the Loan to the first interest calculation day. The last interest period is the day after the previous interest calculation day to the day of the repayment. The remaining interest period is from the day after the previous interest calculation day to the next interest calculation day.
- 1.5 In the event where the People's Bank of China has adjusted the way to determine interest rate, the interest would be calculated based on the applicable rules and regulations of the People's Bank of China without notifying the Borrower by the Lender.
- 1.6 In case where the interest rate enforced under this Contract is below the benchmark lending rate as published by the People's Bank of China, the Lender has the right to re-assess the preferential rates offered to the Borrower each year, and at the Lender's discretion, based on national policy, credit status of the Borrower and changes in status of guarantees provided for the Loan, to cancel part or all of the preferential interest rate offered to the Borrower and shall notify the Borrower on a timely manner.

## **2. Drawdown of the Loan**

- 2.1 The Borrower must fulfil the following precedents prior to the drawdown of the Loan or the Lender does not has the obligation to grant any of the Loan to the Borrower, unless as otherwise agreed by the Lender.
  - (1) Except in the case of credit loan, the Borrower has completed all relevant pledge procedures as required by the Lender;
  - (2) There is no event of the default by the Borrower under the terms of this Contract or contracts with other third parties;
  - (3) Supporting provided by the Borrower matches the agreed purpose of the Loan;
  - (4) Any other information as requested by the Lender.
- 2.2 Written documents provided by the Borrower to the Lender for the purpose of drawdown application must be in their original form. In case where the document is not original, consent must be obtained from the Lender and the copy must be stamped with a company seal of the Borrower.
- 2.3 The Borrower shall submit the drawdown notification at least 5 bank business days prior to the drawdown of the Loan. Once submitted, the application shall not be withdrawn unless with the written consent of the Lender.
- 2.4 In event where the Loan is granted after all precedents are satisfied by the Borrower or waived by the Lender, and the Lender has transfer the Loan into the Borrower's bank account, it is deemed that the Lender has granted the Loan to the Borrower pursuant to this Contract.
- 2.5 In accordance with the requirements of relevant supervisory regulations and the management of the Lender, in the case where the Loan has exceeded certain amount, entrusted payment method shall be used and the Lender shall payment to the designated payee according to the drawdown and entrusted payment application. For this purpose, the Borrower and the Lender shall enter into a separate entrusted payment contract as a supplement to this Contract and the Borrower shall open or designate a bank account to process the entrusted payments.

## **3. Repayment**

- 3.1 The Borrower shall repay the Loan, interest and other expense payable to the Lender in full as agreed under this Contract on a timely basis. On the day of repayment and 1 bank business day prior to the interest calculation day, the Borrower shall ensure there is sufficient funds in the bank account opened at the Lender for the interest, principal and other expenses payable for the period and the Lender has the right to deduct directly, or to request the Borrower to complete all procedures for the deduction, from the Borrower's bank account. In case where the funds is insufficient to repay all of the amount payable, the Lender has the right to decide the sequence for which of the overdue is settled.
- 3.2 In case where the Borrower wishes to early repay the Loan, the Borrower shall submit to the Lender a written application 10 bank business days prior to the proposed early repayment day, and to compensate the Lender in accordance with terms agreed under this Contract.

- 3.3 In case where the Lender agreed for the early repayment, the Borrower shall repay in full the principal, interest and other expenses that fall due on the proposed early repayment day, as agreed under this Contract.
- 3.4 The Lender has the right to recall the Loan based on the Borrower's repayment status.
- 3.5 In case where the tenure of the Loan has shortened as a result of agreement between the Borrower and Lender in accordance with this Contract, the interest rate class shall remain in force and unchanged.

#### **4. Revolving Loan**

- 4.1 In case where the Loan under this Contract is revolving in nature, within the revolving loan tenure, the Borrower's drawn down loan shall not exceed the limit of the revolving loan facility. The actual drawdown day of the Loan and the repayment of the Loan is based on the drawdown note and repayment of any of the drawdown of the Loan shall not beyond the tenure of the revolving loan facility.
- 4.2 In case where the Loan under this Contract is revolving in nature, and the Borrower fails to make any drawdown for the period of 3 months from the day of execution of this Contract, the Lender has the right to cancel the revolving loan facility.

#### **5. Undertakings**

- 5.1 Except in the case of credit loan, the Borrower shall provide a legally valid guarantee which is approved by the Lender as its responsibilities under this Contract and to enter into guarantee contract separately.
- 5.2 In case where assets pledged under this Contract is damaged, depreciated, become subject of ownership dispute, foreclosed or retained, or being disposed of by mortgagor without the consent of the Lender, or event financially unfavourable guarantor or the Borrower has occurred, the Borrower shall notify the Lender promptly and to provide other undertakings which is approved by the Lender.
- 5.3 In case where the Loan under this Contract is secured by trade receivables of the Borrower, during the tenure of this Contract, the Lender has the right to declare early maturity of the Loan in the event of any one of the following, and to demand for immediate repayment for principal and interest, or to request for additional legally valid, effective and sufficient collateral:
  - (1) Bad debts ratio from debtors of the trade receivables provided by mortgagor increase for 2 consecutive months;
  - (2) the receivables overdue but remained outstanding of the trade receivables provided by mortgagor exceeded 5% of the total trade receivables of the mortgagor.
  - (3) trade dispute (including but not limited to quality, technology and service aspects dispute) between the mortgagor of the trade receivable and its debtors or other third parties which result in receivables fails to recover on time.

#### **6. Account Management**

- 6.1 The Borrower shall open a designated funds collection account at the Lender which is used for the collection of sales proceeds and funds planned for repayment of the Loan. In case where sales were made on a non-cash basis, the Borrower shall ensure to deposit such proceeds into the designated funds collection account as soon as it is received.
- 6.2 The Lender shall has the right to monitor the designated funds collection account, including but not limited to understand and supervise the proceeds and payments from/to that account, and the Borrower shall comply. At the request of the Lender, the Borrower shall enter into an account supervision agreement with the Lender.

#### **7. Representations and Guarantees**

The Borrower has made to the Lender the following representations, and shall remain in effect during the tenure of this Contract:

- 7.1 The Borrower is legally qualified as a borrower, capable to enter into and execute this Contract.

- 7.2 The execution of this Contract has obtained all necessary authorization and approval, and the execution and fulfilment of this Contract does not in breach with the Borrower's articles of association and relevant laws and regulations and does not contradict to terms of other contracts of the Borrower.
- 7.3 All debts fall due has been settled on time, there is no delay in payment of interest on bank loans with malicious intent.
- 7.4 There are sound organization structure and financial management system. There is no event of major violation in the past year of operation. There is no major unhealthy record caused by present senior management.

- 7.5 Documents and information provided to the Lender are true, accurate, complete and valid, where false records, material omission and misleading representation do not exist.
- 7.6 Financial reports provided to the Lender are prepared in accordance with accounting standard of the PRC and are truly, fairly and completely reflect the Borrower's operating status indebtedness. Since the date of the latest financial reports, there is no material unfavourable financial change to the Borrower.
- 7.7 There is no event of litigations, arbitration or compensation conceal from the Lender.

## **8. The Borrower's Undertakings**

- 8.1 To drawdown and use the Loan in accordance to the terms and tenure of this Contract, the Loan shall not be used for the purpose of fixed assets, equity, etc. investments, and shall not be used in any way in the securities market, futures market or for any other purpose that is prohibited or restricted by relevant laws and regulations.
- 8.2 To fully repay the principal, interest and other expenses payable in accordance with this Contract.
- 8.3 To actively cooperate with the Lender to inspect and supervise the usage of the Loan through bank account analysis, voucher inspection, site visit, etc. and to report to the Lender the utilization status of the Loan at the Lender's request.
- 8.4 To accept the Lender's credit inspection, to provide to the Lender financial information including balance sheet and profit and loss account and other documents reflecting the Borrower's repayment ability at the Lender's request. To actively assist and cooperate with the Lender in the investigation, understanding and supervision of the operation and financial status of the Borrower.
- 8.5 Shall not distribute any form of dividends prior to the full repayment of principal, interest and other expenses of the Loan.
- 8.6 Prior to proposed consolidation, spin-off, capital reduction, change in ownership, material assets and liabilities transfer, material external investment, increase in debt financing and any other actions that may negatively affect the Lender's rights, the Borrower shall obtain the Lender's written consent or to provide an arrangement for the realization of the Lender's right that is satisfied by the Lender.
- 8.7 In case of occurrence of any one of the following, to notify the Lender immediately:
- (1) Change of articles of association, area of business, registered capital, legal representative, address and form of contact;
  - (2) Out of business, dismissal, liquidation, suspension of business, revocation of business licence, being revoked or applied (or being applied) for bankruptcy;
  - (3) involvement or potential involvement of material economic dispute, litigation, arbitration, or seizure or retention of assets by laws;
  - (4) involvement of material case or economic dispute by shareholders, directors or existing senior management;
- 8.8 Prompt disclosure of related parties and their transactions to the Lender.
- 8.9 To sign off receipt of the various notifications sent or delivered by the Lender.
- 8.10 Shall not dispose of the Borrower's assets which would reduce the repayment ability of the Borrower; guarantee provided to third party shall not damage the Lender's rights.
- 8.11 In case the Loan under this Contract is a credit loan, the Borrower shall completely, truly and accurately report to the Lender all guarantees given, and at the request of the Lender, to execute account supervision agreement. In case guarantee given may affect the execution of responsibilities under this Contract, prior written consent from the Lender must be obtained.
- 8.12 The Borrower shall bear all expenses relating to the execution and fulfilment of this Contract and all expenses paid or payable by the Lender during the realization of its rights under this Contract, which include but not limited to litigation and arbitration costs, asset safeguarding costs, legal costs, execution costs, valuation costs, auction costs and publication costs.
- 8.13 The Loan under this Contract is senior to the debt the Borrower owe to its shareholders, and shall have the same seniority to other similar debts of the Borrower.

- 8.14 Strengthen environmental and social risk management, and to accept inspection and supervision by the Lender. If requested by the Lender, to submit to the Lender environmental and social risk assessment reports.

## **9. The Lender's Undertakings**

- 9.1 To grant the Loan in accordance with terms under this Contract
- 9.2 To maintain confidential the non-public document and information provided by the Borrower, unless as otherwise required under relevant laws and regulations or as agreed under this Contract.

## **10. Default**

- 10.1 The following constitute a default by the Borrower:

- (1) The Borrower fails to repay principal, interest and other expenses payable as agreed under this Contract, or fails to fulfil any of the Borrower's responsibilities under this Contract, or in breach of any of the representations, guarantees or undertaking provided under this Contract;
- (2) A change of the guarantee provided under this Contract which has an unfavourable impact to the Lender's right as a creditor and the Borrower fails to provide other form of guarantees which is approved by the Lender;
- (3) The Borrower fails to repay any of its other liabilities (including those declared early matured) when they fall due, or fails to fulfil or in breach of its responsibilities under other agreements, which has or may has affected the Borrower's ability to fulfil its responsibilities under this Contract;
- (4) The Borrower's profitability, repayment ability, operation ability and cash flows has exceeded target agreed under this Contract, or has deteriorate, which has or may has affected the Borrower's ability to fulfil its responsibilities under this Contract;
- (5) A material unfavourable change in the Borrower's ownership structure, production, external investment which has or may has affected the fulfilment of the responsibilities by the Borrower under this Contract;
- (6) The Borrower's involvement in material economic dispute, litigation, arbitration, or seizure, retention or foreclosure of assets, or investigation carried out or penalty imposed by relevant judicial authorities, or in violation of the country's regulations and policies which has been exposed by media, which has or may has affected the fulfilment of the responsibilities of the Borrower's under this Contract;
- (7) An unusual change, disappearance, or the investigation carried out by judicial authorities or limitation of freedom of major investor or key management, which has or may has affected the fulfilment of the responsibilities of the Borrower's under this Contract;
- (8) The creation of false contract between the Borrower and its related parties to obtain the Loan using non-existence transactions, or through related party transactions for the avoidance of debts due to the Lender;
- (9) The Borrower has or may has already out of business, dismissal, liquidation, suspension of business, revocation of business licence, being revoked or applied (or being applied) for bankruptcy;
- (10) The violation of relevant laws and regulations, supervisory requirements or industry standards relating to food safety, safety of production, environmental protection and other environmental and social risk management, which has resulted in liability or material environmental and social event and has or may has affected the fulfilment of the responsibilities of the Borrower's under this Contract;
- (11) In case where the Loan under this Contract is a credit loan, where the Borrower's credit rating, profitability level, gearing ratios, cash flows from operations, etc. fails to comply with the Lender's credit loan requirements, or the Borrower has provided securities to external parties using its operating assets without the prior written consent from the Lender, which has or may has affected the fulfilment of the responsibilities of the Borrower's under this Contract;
- (12) Any other circumstances which may affect the realization of the rights of the Lender under this Contract.

- 10.2 In an event of default by the Borrower, the Lender has the right to:

- (1) Request for the correction by the Borrower;
- (2) Stop granting the Loan or other financing to the Borrower under this Contract or other contracts, cancel part or all of the Loan that is unused or other financing;

- (3) Declare immediate maturity on the Loan under this Contract or other loans to the Borrower and to recall for the repayment of the Loan;
  - (4) Demand for the loss suffered due to default by the Borrower;
  - (5) Other procedures as required by the Lender, the Contract or relevant laws and regulations;
- 10.3 In case where the Borrower fails to repay the Loan on due day (including loans declared early matured), the Lender has the right to charge penalty interest on the overdue loan from the day of overdue at interest rate as agreed under this Contract. In case where the Borrower fails to pay penalty interest on time, such overdue penalty interest shall be subject to compound interest.
- 10.4 In case where the Borrower misused the Loan for purpose other than those agreed under this Contract, the Lender has the right to charge penalty interest on the misused Loan from the day of the misuse. In case where the Borrower fails to pay penalty interest on time, such penalty interest shall be subject to compound interest.
- 10.5 In case where the circumstances stated in 10.3 and 10.4 above occurred concurrently, the Borrower shall subject to the more serious penalty interest but not both.
- 10.6 In case where the Borrower fails to repay principal, interest (including penalty interest and its compound interest) or other expenses payable to the Lender on time, the Lender may publish notice in the media for debt chasing.
- 10.7 In case where the controlling relationship between related parties of the Borrower and the Borrower has occurred or any of the circumstances (except those stated under 10.1(1) and (2)) has occurred to the related parties of the Borrower, which has or may has affected the fulfilment of the responsibilities of the Borrower's under this Contract, the Lender has the right to carry out any of the procedures under this Contract.

## **11. Deductions**

- 11.1 In case where the Borrower fails to repay the Loan on due day (including loans declared early matured) or committed an event of default, the Lender has the right to deduct the relevant amount from the Borrower's bank account at the Lender or any of its branches, until the indebtedness under this Contract is fully repaid.
- 11.2 In case where the deduction is in a currency different from the currency under this Contract, the deduction shall be exchanged at a rate applicable to the Lender on the day of deduction. Interest, other expenses and exchange differences arising from exchange fluctuations between the day of deduction and repayment day (the day on which the Lender exchanged the deduction to the currency under this Contract in accordance with national exchange policy and repaid all debts under this Contract) shall be borne by the Borrower.
- 11.3 In case where the deductions made by the Lender is insufficient to repay all of the indebtedness payable by the Borrower to the Lender, the Lender has the right to decide the sequence for which of the overdue is settled.

## **12. Transfer of Rights and Obligations**

- 12.1 The Lender has the right to transfer part of all its rights under this Contract to third parties and does not require the consent of the Borrower. Unless otherwise the Borrower has obtained the written consent of the Lender, the Borrower shall not transfer any of its rights and obligations under this Contract.
- 12.2 The Borrower confirms and approves that the Lender may, according its management needs, assign its rights and obligations under this Contract, or the management of the Loan under this Contract, to other branches of Industrial and Commercial Bank of China Limited ("ICBC") and to be carry out by those branches and does not require the consent of the Borrower. Other branches of Bank of Tieling which undertook the rights and obligations under this Contract shall have the rights to exercise all of the Lender's rights under this Contract, and shall has to right to act on behalf the Lender for any legal proceedings (include litigations, arbitration, or application for mandatory execution) brought to court.

## **13. Validity, Modifications and Termination**

- 13.1 This Contract shall become in effect upon execution by all parties, and shall remain in effect until all of the responsibilities under this Contract has been fulfilled.
- 13.2 Any proposed modifications to this Contract shall be in written form as negotiated and agreed by all parties. Modifications in clauses or agreement shall form an integral part of this Contract and shall bear the same legal effect to this Contract. Except for the modified clause, the remainder of this Contract shall remain in effect and the original clause shall remain in effect prior to the effectiveness of the modification.
- 13.3 The modification or termination of this Contract does not affect the rights for damages by any party to this Contract. The termination of this Contract does not affect the effectiveness of clauses relating to dispute resolution.

**14. Applicable Laws and Dispute Resolution**

The execution, effectiveness, interpretations, fulfilment and the dispute resolution shall be construed under the laws of the People's Republic of China. Any disputes so arising under this Contract shall be resolved through negotiation or otherwise through procedures as agreed under this Contract.

**15. Entirety of Contract**

Section 1 "Basic Agreement" and Section 2 "Detailed Terms" shall form a complete set of loan contract, the terms used in both sections shall have the same meaning. The Loan obtained by the Borrower shall be binding by the above sections.

**16. Notifications**

- 16.1 All notifications under this Contract shall be made in written form. Unless as otherwise agreed, the Borrower's address stated under this Contract shall be the correspondence address for the purpose of this Contract. Any change in the Borrower's address or method of communication shall be notified to the Lender immediately.
- 16.2 In case a party to this Contract refused to accept delivery of the notification or undeliverable of notification, the other party to this Contract may deliver the notification through notary public or in form of public announcement.

**17. Others**

- 17.1 The non-execution or delay in the execution on part of all of the rights by the Lender does not deemed as forfeiture of change of such rights by the Lender, and shall not affect the Lender's right in executing such or other rights.
- 17.2 Any of the clauses under this Contract become void or unenforceable shall not affect the effectiveness and the enforceability of other clauses.
- 17.3 The Lender has the right to provide relevant information of this Contract or the Borrower to People's Bank of China information system or other credit information database set up in accordance with relevant laws so as to allow enquiries from and use by qualified institutes or individuals. The Lender also has the right, for the purpose of this Contract, enquire from such system and database information relating to the Borrower.
- 17.4 Terms including "related parties", "relationships with related parties", "related party transactions", "individual major shareholder", "key management personnel", etc. shall have the same meaning of terms contained in "Accounting Standards for Enterprises No. 36 – Related Party Disclosures" and its amendments as published by the Ministry of Finance.
- 17.5 Environmental and social risks mentioned in this Contract refer to risks of jeopardizing the environment and society that may arise from the construction, manufacturing, operating activities by the Borrower and its important related parties, which include squander of energy consumption, contamination, land, health, safety, resettlement, environmental protection, climate changes, etc.
- 17.6 The Lender invoices and vouchers prepared and retained by the Lender for the purpose of the Loan under this Contract and for the Lender's operations practice shall be an evidence of the borrower-lender relationship between the Borrower and the Lender and shall be legally binding to the Borrower.
- 17.7 Within this Contract, (1) the term "this Contract" shall include its amendments and supplements; (2) the headings for each of the clauses are for reference only and shall not constitute any interpretation to the related clause itself and shall not constitute any form of restriction as to the contents and coverage of related clause; (3) In case where drawdown day or/and repayment day is not bank business day, it shall postpone to the next available bank business day.

Both parties confirm: The Borrower and the Lender has negotiated all the terms and conditions under this Contract. The Lender has reminded the Borrower to pay special attention to the terms relating to the rights and obligations of both parties and to fully understand their meaning and has explained to the Borrower the meaning and interpretations of those terms. The Borrower has read and fully understood all of the terms (including Sections 1 and 2) under this Contract. Both parties under this Contract fully understand the terms of this Contract and no objection to those terms.

The Lender: Stamped with a Seal of ICBC Hengyang Hua Xin branch  
Authorised Signature:

The Borrower: Stamped with a Seal of China Glorious City (Hengyang) Co., Ltd.  
Authorised Signature: Xu Zhu Qi

Date: 15 April 2015

**Bank of China****Working Capital Loan Contract**

The Borrower: **China Glorious City Investments (Zhoukou) Co., Ltd.**

The Lender: **Bank of China, Zhoukou Branch**

The Borrower and the Lender has entered into this contract (this “Contract”) upon mutual agreement regarding granting of working capital loan.

**Section 1     Loan Amount**

Currency type: **RMB**

Loan amount: (In words) One Hundred Million  
(In numbers) 100,000,000

**Section 2     Tenure of the Loan**

Tenure of the Loan: **12** months, from the day of the drawdown. In case of drawdown in stages, from the day of the first drawdown.

The Borrower shall strictly follow the timetable of the drawdown. In case where the drawdown of the Loan is later than the timetable, the Borrower shall repay the Loan as agreed under this Contract.

**Section 3     Purpose of the Loan**

Loan Purpose: **Advertising expenses for phase 1 of the project**

Unless otherwise agreed by the Lender in writing, the Borrower shall not change the purpose of the Loan. The Borrower shall not, including but not limited to, use the Loan for the purpose of fixed assets and securities investments, and used for the purpose of production and business operations that are prohibited by the country.

**Section 4     Interest Rate and Interest Calculations**

## 1.     Loan interest

The interest rate shall use method (2) of the following:

- (1) fixed interest rate, with annual rate of **[Blank]**%, and shall not change for the tenure of the Loan.
- (2) floating rate, calculated from the from the date of the drawdown (in case of drawdown by instalments, it shall be the date of first drawdown) and the floating rate shall be reset in a cycle of every **12** months. The interest rate reset date shall be the first day of the next cycle, which will be the same date as the corresponding interest calculation date. In case there is no such corresponding date during such month, the last day of the month shall be used.

For each drawdown:

RMB loan floating interest rate (pricing based on the loan base interest rate from the National Interbank Lending Center)

- A. First cycle (from the first drawdown date to the date when this cycle ends), interest rate for the period shall be the average base lending rate from the National Interbank Lending Center from the previous business day plus 5 basis points.
- B. On interest rate reset day, and together with other drawdown from the Loan, interest rate for the period shall be reset at the average base lending rate from the National Interbank Lending Center from the previous business day plus 5 basis points.

## 2.     Interest calculation

Interest shall be calculated from the day of the drawdown based on the drawdown amount and the actual days of outstanding.

Interest calculation formula: Interest = Principal X Actual Days the Loan remained outstanding X Daily interest rate

Daily interest rate is calculated based on 360 days per year, i.e. Daily interest rate = Annual rate/360



## 3. Interest settlement method

The Borrower shall use method **(2)** of the following:

- (1) Calculated quarterly, the 20th day of last month of each quarter shall be the interest calculation day, 21st day of that month shall be the interest payment day;
- (2) Calculated monthly, the 20th day of each month shall be the interest calculation day, 21st day of the that month shall be the interest payment day;

In case where the Borrower's final repayment day is not an interest payment day, the final repayment day shall become interest payment day and the Borrower shall settle all interest payable thereon.

## 4. Penalty interest

- (1) In case of the Loan become overdue or being misused for purpose other than agreed under this Contract, penalty interest shall be calculated based on the penalty interest rate as agreed under this Contract from the date on which the Loan become overdue or being misused until the date when the Loan and interest are repaid.

In case where the Loan is overdue and being misused, a higher penalty interest rate shall be used for the calculation of penalty interest.

- (2) In case where the Borrower fails to pay interest and penalty interest promptly, compound interest shall be calculated based on penalty interest rate as agreed under this Contract, and shall be settled in accordance with paragraph 4(3) of this Section.

- (3) Penalty interest rate

Floating rate loan penalty interest rate

- A. The penalty interest rate shall be set in accordance with paragraph 4(1) of this Section. Penalty interest rate shall be reset on the date corresponding to the date on which the portion of the Loan is overdue or misused. In case there is no corresponding date for the month, the last day of the month shall be used.
- B. Overdue penalty interest rate shall be the 50% above the base penalty interest rate stipulated in paragraph 4(3)C of this Section. Misused penalty interest rate shall be the 50% over the base penalty interest rate stipulated in paragraph 4(3)C of this Section.
- C. Overdue or misused penalty interest rate for the first cycle shall be the interest rate enforced for the period. The penalty interest for subsequent cycle shall be reset in accordance with paragraph 4(1) of this Section.

**Section 5 Drawdown Conditions**

The Borrower shall satisfy the following prior to drawdown:

1. This Contract and its supplement is effective;
2. The Borrower has provided guarantees as requested by the Lender and guarantee contract has been executed and has been approved, registered and filed;
3. The Borrower has reserved or executed and fulfilled for the Lender relevant documents, invoices, chops, personnel list, signature samples, and has completed relevant vouchers;
4. The Borrower has opened all necessary bank account for the fulfillment of this Contract at the request of the Lender;
5. The Borrower has submitted to the Lender a copy of written drawdown application and related supporting documents for the purpose of the Loan **3** bank business days prior to the drawdown, to process the drawdown application;
6. The Borrower has submitted to the Lender a copy of authorization letter for the execution of this Contract from Board of Director or other departments with the power to authorize the execution of this Contract; and
7. Other conditions as required by laws and regulations and both parties under this Contract.

Unless otherwise agreed by the Lender, the Lender has the right to refuse the drawdown application in case any of the above is not fulfilled.

**Section 6 Drawdown Day and Method**

1. The Borrower shall make drawdown based on method (2) below:

- (1) One single drawdown on [blank].
- (2) One single drawdown within 60 days from July 1, 2015.
- (3) To drawdown based on the following timetable:

[Blank]

2. The Lender has the right to refuse the Borrower's drawdown application in case the drawdown application is beyond the above timetable for any unutilized loan amount.

3. Commitment fee

In case where the Borrower fails to drawdown the Loan pursuant to paragraph 1 of this Section ("Undrawn Loan"), the Lender shall have the right to receive a commitment fee, calculated based on the amount of the Undrawn Loan multiply by number of days past the agreed drawdown deadline and an annual rate of 0.1%.

The receipt date for the commitment fee shall be within 30 days after the agreed drawdown deadline.

**Section 7 Granting of the Loan**

1. Loan grant account

The Borrower shall open account at the Lender for the purpose of the loan grant, the grant and payment of the Loan shall be made through this bank account.

Account name: China Glorious City Investments (Zhoukou) Co., Ltd.

Account Number: [Not disclosed in this translation]

2. Loan payment method

- (1) The payment of the Loan is made in accordance with relevant laws and regulations and as agreed under this Contract, the method of the payment of the Loan shall be stated and confirmed in the drawdown application of the Loan. The Lender has the right to change the granting/payment method in case where the Lender considers that the payment method chosen by the Borrower does not comply with the requirements.
- (2) Lender's entrusted payment, which means the Lender shall make payments to trading third parties of the Borrower in accordance with the purpose of the Loan under this Contract. In accordance with the rules and regulations of China Banking Regulatory Commission and the Lender's internal requirements, purpose for which the Loan is granted satisfied the one of the followings shall use lender's entrusted payment method:
  - (A) The credit relationship between the Borrower and the Lender is newly established and the Borrower's credit rating has not reached the required level by the Lender;
  - (B) At the time of drawdown application, the payee is clear as to name of bank account and bank account number and the drawdown of the Loan exceeded RMB10,000,000.
  - (C) Other conditions agreed between the Borrower and the Lender [blank].
- (3) The Borrower's payment method, which means the Lender would transfer the Loan to the Borrower's bank account at the Lender in accordance with the drawdown application and the Borrower shall make payments on its own to its trading parties that is complied with the conditions under this Contract. Except for the circumstances agreed above which shall use entrusted payment method, the Borrower shall make payment on its own on other amount of the Loan.
- (4) Change of payment method. In case where after the submission of the drawdown application there is a change in the Borrower's payment to third parties and/or change in credit rating where such change has satisfied the requirement under paragraph 2(2) under this Section, the payment method shall be changed. In case where there is change in the payment method, or in the case a change in the payment amount, payee or a change of the purpose of the Loan, the Borrower shall submit to the Lender a change application in writing, to re-submit a drawdown application and supporting documents for the purpose of the Loan.

## 3. Specified requirements on entrusted payment method

- (1) Entrusted payment. In case where payment is in compliance with the conditions of entrusted payment method, the Borrower shall clearly include in its drawdown application such entrust, which shall authorize and entrust the Lender to transfer to drawdown of the Loan from the Borrower's account to the bank account of the trading party for which the purpose of the Loan is in compliance with the conditions under this Contract, and shall include the name, account number and amount of the payment of the trading party, which is necessary for the entrusted payment.
  - (2) Provision of transaction information. For payment in compliance with the conditions of entrusted payment method, the Borrower shall, at each drawdown, submit to the Lender its account details, trading party's account details and documents to prove that such drawdown is in compliance with the purpose of the Loan under this Contract. The Borrower shall undertake that all documents provided to the Lender are true, complete and valid. The Lender shall not be held responsible in case where information provided by the Borrower is false, inaccurate or incomplete and as a result the entrusted payment is unable to complete on time. The Borrower's responsibility on repayment of the Loan from past drawdown shall not be affected.
  - (3) The fulfillment of the Lender's responsibilities under entrusted payment method
    - (A) In case where Lender's entrusted payment method is used, the Lender shall transfer to the Borrower's trading part upon review and approval of drawdown application after submission of related documents and application by the Borrower.
    - (B) The Lender has the right to request the Borrower for supplements, replace, elaborate or re-submit relevant materials in case where the documents provided by the Borrower do not satisfy the requirements under this Contract or are incomplete. The Lender has the right to refuse any payment of the Loan prior to the provision of documents by the Borrower are satisfied by the Lender.
    - (C) The Lender shall not be responsible in case where the Borrower is unable to make payment under entrusted payment method to its trading party due to funds being returned from bank of the trading party of the Borrower. In case where funds being returned from the bank of the Borrower's trading party, the Borrower hereby authorize the Lender to freeze such funds. Under this circumstances, the Borrower shall re-submit the entrusted payment application and related supporting documents to the Lender.
  - (4) The Borrower shall not split the amount into smaller amount to avoid the Lender's entrusted payment method.
4. Subsequent to the granting of the Loan, as requested by the Lender, the Borrower shall provide to the Lender records and information regarding usage of the Loan, including but not limited to procurement contracts, etc.
5. In the event of any of the following, the Lender has the right to re-establish the terms for the granting and payment of the Loan or to stop granting and payment of the Loan:
- (1) The Borrower breach the terms as agreed under this Contract and has split the amount into smaller amount to avoid the Lender's entrusted payment method;
  - (2) The credit rating of the Borrower dropped or the profitability of the Borrower's main business is not strong;
  - (3) Abnormally occurred in the use of the Loan proceeds;
  - (4) The Borrower fails to provide record and information to the Lender promptly as requested by the Lender;
  - (5) The Borrower made payments using the Loan which has violated the purpose of the Loan as agreed under this Contract.

**Section 8 Repayment of the Loan**

1. The Borrower designates the following bank account as funds collection account, any funds collected by the Borrower shall be deposited into the funds collection account. The Borrower shall provide details of funds movement of the funds collection account. The Lender has the right to supervise and request the Borrower to provide explanation on significant or abnormal fund movements in the funds collection account.

Account name: **China Glorious City Investments (Zhoukou) Co., Ltd.**

Account Number: **[Not disclosed in this translation]**

2. Unless otherwise agreed by both parties, the Borrower shall repay the Loan under this Contract under method **(1)**:

- (1) The Borrower shall repay the entire Loan under this Contract upon maturity of the Loan tenure.
- (2) To repay the Loan under this Contract based on the following repayment plan:

Repayment Date  
**[Blank]**

Repayment Amount  
**[Blank]**

In case where the Borrower wants to change the above repayment plan, the Borrower shall submit in writing to the Lender 15 bank business days prior to the maturity of the related installment. Such change in repayment shall only take effect upon written confirmation by both parties.

3. Unless otherwise agreed by both parties, in the case where the principal and interest overdue by the Borrower to the Lender at the same time, the Lender shall have the right to decide the order of repayment. In case where there are multiple loans overdue by the Borrower to the Lender at the same time, the Lender has the right to decide the order repayment of different loans.
4. Unless otherwise agreed by both parties, the Borrower may repay the Loan earlier, by notifying the Lender in writing 30 bank business days before the early repayment. The early repayment shall first repay the loan which has the latest due date, in descending order of maturity.

The Lender has the right to charge the Borrower a change of repayment terms fee at a rate of 0.1% for early repayment of the Loan from the Borrower.

5. The Borrower shall repay the Loan by following method.

The Borrower shall deposit sufficient funds into the following bank account for the portion of the Loan and its interest 1 bank business days prior to the due date. The Lender shall have the right to deduct the money from this bank account upon the due date of portion of the Loan.

Name of Account: **China Glorious City Investments (Zhoukou) Co., Ltd.**

Account Number: **[Not disclosed in this translation].**

## **Section 9 Guarantees**

1. The indebtedness under this Contract shall be guaranteed by:

A "Maximum Ceiling Guarantee Contract" is entered into between the China Northeast Logistics City Dezhou Co., Ltd. and the Lender with serial number of "2015 ZKH Gao Bao Zong Zi 015" for a guarantee limited by a ceiling provided by China Northeast Logistics City Dezhou Co., Ltd.

A "Maximum Ceiling Guarantee Contract" is entered into between the China Huayu Industries Co., Ltd. and the Lender with serial number of "2015 ZKH Gao Bao Zong Zi 005" for a guarantee limited by a ceiling provided by China Huayu Industries Co., Ltd.

2. In case where the Lender believe there are some issues adversely affecting the Borrower's or Guarantor's fulfillment ability of the contract, or the Guarantee becoming invalid, being revoked or cancelled, or Borrower's or Guarantor's financial situation deteriorating or involving in material litigation or arbitration, or other reasons adversely influencing Borrower's or Guarantor's repayment ability, or any breach of contracts, depreciation, damage, loss, closed down of the guaranty in any other contracts between Borrower and Guarantor which might deducting or losing the value of the guaranty, the Lender shall have the right, at the same time, the Borrower shall have the responsibility to provide the new guaranty, increase or replace guarantor, in order to guarantee the liability.

## **Section 10 Representations and Undertakings**

1. The following representations are made by the Borrower:

- (1) The Borrower is legally registered and existed, and the Borrower possess a complete civic and behavioral ability to enter and execute this Contract. The Borrower is the legal representative of the new project and its controlling shareholder is of sound credit status and there were no significant adverse record. The new investment project shall fulfill the requirement regarding main investor qualification and operating capital set by the central government of The People's Republic of China.
- (2) The execution and fulfillment of this Contract represent true intent of the Borrower, and has legally and effectively completed all necessary authorizations in accordance with its articles of association and internal management requirements and does not breach any other agreements, contracts and other legal documents that are binding to the Borrower. The Borrower has or will have obtained all the approvals, permissions, filings and registrations related to the execution and fulfillment of this Contract.
- (3) All documents, financial reports, vouchers and other information provided from the Borrower to the Lender are true, complete, accurate and valid.
- (4) The business transaction background described to the Lender by the Borrower is real, legitimate and is not undertake for the purpose of money laundering.

- (5) The Borrower is of sound credit and there were no significant adverse record. The Borrower did not hide any issue which will adversely affect the financial position and fulfillment of contract of Borrower and the Guarantor.
  - (6) The Borrower and the project for the Loan achieved the environmental protection standard and the Borrower and the project are not being published and confirmed as high energy wastage and high pollution enterprise by non-governmental organizations, and the issues of high energy wastage and pollution do not exist for the Borrower and the project.
  - (7) Other representations by the Borrower: **[Blank]**.
2. The following undertakings made by the Borrower:
- (1) At the request of the Lender, periodically or promptly provide financial reports (including but not limited to annual report, quarterly reports and monthly reports) and other relevant information to the Lender. The Borrower shall also ensure that the gearing ratio shall not exceed 90% on a continuous basis.
  - (2) In case where the Borrower has entered into a reverse-guarantee agreement or similar agreement with the guarantor, such agreement, such agreement shall not damage any of the Lender's rights under this Contract.
  - (3) To accept, and to provide sufficient assistance and coordination to the Lender's credit checks and supervision. In case where the Borrower make payments from the Loan on its own, to provide report on payment of the Loan, usage status to the Lender periodically on a monthly basis before 5th day of each month.
  - (4) In case of consolidation, spin-off, capital reduction, transfer of ownership, external investment, increase in debt financing, material asset or indebtedness transfer and other events that may affect the Borrower's repayment ability, the Borrower shall obtain a prior written consent from the Lender.
- In the event of the following the Borrower shall notify the Lender immediately:
- (A) Change in articles of association, area of business, registered capital and legal representatives of the Borrower or its guarantor;
  - (B) Change of business model by conducting any form of joint ventures, joint venture, cooperation, subcontracting restructuring, reform, plan of listing with foreign enterprise, etc.
  - (C) Involvement in material litigation or arbitration, or seizure, retention or supervision of assets or collateral, or set up of new collateral on secured assets.
  - (D) Out of business, dismissal, liquidation, suspension of business, revocation or cancellation of business license, apply for (or being applied for) bankruptcy.
  - (E) Involvement of material case or economic dispute by shareholders, directors and existing senior management;
  - (F) Breach of other contracts by the Borrower;
  - (G) Event of operational difficulty and deterioration of financial status, etc.
- (5) The Loan shall rank senior to loans from shareholders of the Borrower and shall not rank junior to similar debts of the Borrower.
  - (6) The Borrower shall not distribute any form of dividend prior to the full repayment of principal, interest and other related expenses of the Loan under this Contract.
  - (7) The Borrower shall not dispose of its assets which would result in the lowering of its repayment capacity and the Borrower undertakes it shall not provide guarantee to third parties to an aggregate value of exceeding its net assets value and single or aggregate value of guarantees provided shall not exceed the restrictions as stipulated in its articles of association.
  - (8) Unless as otherwise agreed by the Lender and terms under this Contract, the Borrower shall not transfer the Loan to other bank accounts of the Borrower or its related parties.  
In case where transfer is made to the Borrower's other bank accounts or related parties bank account, the Borrower shall provide relevant supporting documents.
  - (9) Guarantees provided by the Borrower to the Lender, pricing of interest rate and repayment order of the Loan under this Contract shall not below current or future terms offer to other financial institute.

- (10) The Lender has the right to request early repayment of the Loan depending on the funds collection status of the Borrower.
- (11) Other undertakings by the Borrower: **[Blank]**.

### Section 11 The Disclosures of Related Party Transactions within the Group of the Borrower

Both parties agreed to use method **2** of the following:

1. **[Not applicable]**
2. The Borrower has been confirmed as a group customer of the Lender in accordance with “Guide on Risk Management of Credit Business of Group Customers of Commercial Bank” (hereafter the “Guide”). The Borrower shall report to the Lender the nature of any related party transactions exceeding 10% of its net assets value, including the relationship between the counterparty and the Borrower, subject of the transaction, amount of the transaction and its proportion to other transactions and pricing policies (including transactions with no value or of symbolic value).

In the event of the following, the Lender has the right to unilaterally stop further grant of the unused Loan to the Borrower and shall has the right to recall part of all of the principal and interest of the Loan prematurely: Obtain bank credit through creation of bills receivable, accounts receivable, etc by falsified contracts entered with related parties where such contract does not contain actual trade background; In the event of material merger and acquisition or restructuring which the Borrower considers may affect the safeguarding of the Loan; Evading of bank liabilities with willful intent; Events stipulated in Section 18 of the Guide.

### Section 12 Event of Default and Treatment

1. Any of the following constitute an event of the default by the Borrower under this Contract:
  - (1) The Borrower fails to repay all liabilities due to the Lender arising from this Contract;
  - (2) The Borrower fails to make payments using the funds from the Loan in accordance with terms agreed under this Contract, or use the funds from the Loan for purpose other than those agreed under this Contract, or split the amount of a payment into smaller payments to avoid the Lender’s entrusted payment;
  - (3) Representations made by the Borrower is untrue, or the Borrower is in breach of its undertakings under this Contract;
  - (4) In any of the events as stated in Section 2(4) where the Borrower considers may affect the financial status of and ability to fulfill this Contract by the Lender or guarantor, and the Borrower fails to provide new collateral or new guarantor;
  - (5) The Borrower is in breach of other contracts with the Lender or any institutes under the Bank of China;
  - (6) Deterioration in the Borrower’s credit status, deterioration in the Borrower’s financial indicators such as profitability, debt repayment ability, operating ability or cash flows, and has exceeded threshold set or agreed under this Contract;
  - (7) The guarantor is in breach of guarantee contract with the Lender or other contracts with any institutes under the Bank of China;
  - (8) In the event that the Borrower is out of business, dismissed, revoked or bankrupted;
  - (9) The Borrower involves or may involve in material economic dispute, litigation or arbitration, or seizure, retention or supervision of assets, or being investigated or punished by judicial authorities, tax bureau, trade and industry bureau, etc administrative authorities, has or may has affected the fulfillment of responsibilities by the Borrower under this Contract;
  - (10) Unusual change of, disappearance of, or investigation or limitation of personal freedom by judicial authorities of, individual shareholders and key management;
  - (11) Discovery of event that may affect the Borrower’s or the guarantor’s financial status or contract fulfillment ability during yearly (each anniversary of from the execution of this Contract) review of the Borrower’s financial status or contract fulfillment ability;
  - (12) The Borrower fails to provide explanation materials approved by the Lender in relation to significant or abnormal fund movements in the designated funds collection account.
  - (13) The Borrower is in breach of its responsibilities as agreed under this Contract.

2. In any of the event of default as stated above, the Lender has the right, according to specific circumstance, to take following actions:
- (1) To request correction by the Borrower or guarantor within deadline;
  - (2) Partially or entirely reduce, suspend, cancel or terminate the Loan facility to the Borrower;
  - (3) Partially or entirely suspend or terminate drawdown application from the Borrower under this Contract or other contracts with the Lender. Partially or entirely suspend, suspend, terminate the grant, payment and process of the any loan and loan applications.
  - (4) Declare part or all of the Loan under this Contracts, other loans due to the Lender by the Borrower and their interest due immediately.
  - (5) Termination or relieve of this Contract, Entirely or partially terminate or relieve other contracts between the Borrower and the Lender.
  - (6) Demand the Borrower for loss arising from Borrower's event of default.
  - (7) To deduct funds from the Borrower's bank account with the Lender, or other institutes under Bank of China to repay the part of all of the Loan under this Contract. Any unexpired loans would be deemed fall due. In case of difference currencies in other accounts of the Borrower, exchange rates applicable at the time of deduction would be used.
  - (8) Exercise the Lender's right to collateral.
  - (9) Request responsibilities from the guarantor.
  - (10) Any other measures that the Lender deemed necessary.

### **Section 13 Reservation of Rights**

The non exercise of part or all of the rights by any party to this Contract, or absence of request by that party to the other party for the fulfillment of that other party's responsibilities shall not be deemed as forfeiture of such rights by or waiver of such responsibilities from that party.

Any tolerance, extension, or delay in the fulfillment of the rights under this Contract from one part to another party shall affect one party's entitlement to any of its rights in accordance with laws and regulations and under this Contract, and shall not be deemed to have forfeit any of those rights.

### **Section 14 Modification, Amendment and Termination**

This Contract may be amended upon written agreement between both parties to this Contract and such written agreement shall become an integral part of this Contract.

Unless as otherwise agreed or as required by laws and regulations, this Contract shall not be terminated until all rights and obligations under this Contract have been fulfilled.

Unless as otherwise agreed or as required by laws and regulations, invalidation of any of the terms under this Contract shall not affect the legal validity of other terms under this Contract.

### **Section 15 Applicable Laws and Dispute Resolution**

The Contract shall be under the jurisdiction of the laws of People's Republic of China.

Upon the effectiveness of this Contract, any dispute arising from the execution, fulfillment of this Contract or related to this Contract shall be first resolved through negotiation. In case where negotiation fails, the dispute shall be brought to local court in which the Lender (or institutes under Bank of China to which such dispute is related) is located.

During the period of dispute resolution, other terms under this Contract shall continued to be fulfilled by both parties in case where such dispute does not affect the fulfillment of other terms under this Contract.

### **Section 16 Supplement**

1. Drawdown application (Format)
2. Loan note

**Section 17 Other Agreements**

1. The Borrower shall not transfer any rights and obligations under this Contract to any third party unless with a prior written consent from the Lender.
2. The Borrower confirms and approves that the Lender may, according its management needs, assign its rights and obligations under this Contract, or the management of the Loan under this Contract, to other institutes under Bank of China and to be carry out by those institutes. Other institutes under Bank of China which undertook the rights and obligations under this Contract shall have the rights to exercise all of the Lender's rights under this Contract, and shall has to right to act on behalf the Lender for any legal proceedings (include litigations, arbitration, or application for mandatory execution) brought to court.
3. Provided that other terms under this Contract are not affected, this Contract shall be binding to both parties to this Contract and their respective legal successors and transferee.
4. Unless otherwise agreed, both parties designate addresses stated in this Contract to be used as correspondence addresses and to undertake that to notify the other party in writing in case where there is a change in the correspondence address.
5. The transaction under this Contract is executed based on each party's individual interests. In case where as required by laws and regulations and supervisory bodies, other parties involved in this transactions constitute a related party to the Lender, all parties shall not use such relationship to affect the fairness of this transaction.
6. Titles and names of businesses are used for ease of reference only and shall not be construed as interpretations to the terms and rights and obligations of both parties of this Contract.
7. The Lender has the right to provide relevant information of this Contract or the Borrower to People's Bank of China information system or other credit information database set up in accordance with relevant laws so as to allow enquiries from and use by qualified institutes or individuals. The Lender also has the right, for the purpose of this Contract, enquire from such system and database information relating to the Borrower.
8. In case where drawdown day, repayment day is statutory holiday, such days shall be postponed to the next available business day.
9. In case where the Lender is unable to fulfill this Contract or comply with the terms of this Contract as required by laws and regulations, or supervisory authorities or as a result of a change in supervisory rules, the Lender shall has the right to terminate, or as required by laws and regulations, or supervisory authorities or as a result of a change in supervisory rules, amend the terms of this Contract. In case where the termination of this Contract is due to such requirements or change in rules, the Lender is exempted from the responsibilities under this Contract.

**Section 18 Effectiveness of Contract**

This Contract shall become effective upon the signatures and stamps from legal representatives of both parties. There are 5 copies of this Contract, one for each of the Lender, the Borrower and relevant registration department, and shall bear the same legal effect.

The Borrower: China Glorious City Investments (Zhoukou) Co., Ltd.

Authorized representative:

The Lender: Bank of China, Zhoukou Branch

Authorized representative:

Date: July 1, 2015



**THIS LOAN AGREEMENT made this 4th August, Two Thousand and Fifteen.**

**BETWEEN :**

- (I) CHINA METRO-RURAL HOLDINGS LIMITED (中國城鄉控股有限公司)**, a company incorporated in the British Virgin Islands whose registered office is situate at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands, and is listed on the NYSE MKT under the ticker symbol “CNR” (“the Borrower”);
- (II) CHENG CHUNG HING(鄭松興), [ID and address not disclosed]** (“the Lender”).

**WHEREAS :-**

The Borrower is desirous of borrowing an unconditional and unsecured fixed term loan from the Lender for business purpose and the Lender has agreed to advance a loan of **Fifty-Five Million Hong Kong Dollars only** (“the Loan”) to the Borrower effective from **August 4, 2015** (“the Date of the Advance”) upon the Borrower entering into the covenants and obligations hereinafter contained.

**NOW IT IS HEREBY AGREED** by the parties hereto as follows :-

## 1. REPAYMENT

- 1.1 Subject to and without prejudice to other provisions, terms or conditions herein contained the BORROWER hereby COVENANTS with the Lender that the Borrower shall repay the Lender in full the Loan within **Two** calendar years from the Date of Advance (“Maturity Date”) with interest at **15% per annum**, with effect from the Date of the Advance until repayment of whole Loan.
- 1.2 Interest of the Loan is to be compounded on an annual basis, payable semi-annually on **February 3, August 3** of each calendar year with the first such compounding to be paid on **February 3, 2016**.
- 1.3 Early repayment of the Loan can be made after anytime from the Date of the Advance with no additional interest and penalty.
- 1.4 If the Borrower is late or default in repayment of loan and/or payment of interest, 2% penalty calculated on monthly basis will be applied to the loan and/or overdue interest until repayment of loan and/or payment of interest from Borrower.

## 2. TRANSFER

This Agreement may be assigned or transferred in whole only by the Lender and the Borrower shall upon receipt of the notice of such assignment or transfer facilitate any such assignment or transfer of the Agreement.

3. GOVERNING LAW AND JURISDICTION

3.1 This Agreement shall be governed by and construed in accordance with the laws of Hong Kong S.A.R.

3.2 The Borrower agrees that any legal action or proceeding arising out of or relating to this Agreement may be brought in the courts of Hong Kong S.A.R. and irrevocably submits to the non-exclusive jurisdiction of such courts.

4. DECLARATION

The Lender hereby DECLARE that the Lender had sought independent legal advice in respect of this transaction and the contents of this Agreement.

IN WITNESS whereof the parties hereto have duly executed this Agreement the day and year first above written.

SIGNED by Sio Kam Seng )  
For and on behalf of )  
CHINA METRO-RURAL )  
HOLDINGS LIMITED )  
(中國城鄉控股有限公司),  
the Borrower in the presence of :-

SIGNED by )  
the Lender in the presence of :- )  
)

Dated : 4th August 2015

\*\*\*\*\*

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**(中國城鄉控股有限公司)**

and

**CHENG CHUNG HING**  
**(鄭松興)**

\*\*\*\*\*

**LOAN AGREEMENT**

\*\*\*\*\*

**THIS LOAN AGREEMENT made this 3<sup>rd</sup> November, Two Thousand and Fifteen.**

**BETWEEN :**

- (I) CHINA GLORIOUS CITY HOLDINGS LIMITED (華耀城控股有限公司)**, a company incorporated in Hong Kong whose registered office is situate at Suite 2204, Sun Life Tower, The Gateway, 15 Canton Road, Tsimshatsui (“the Borrower”), which is an indirect wholly owned subsidiary of **CHINA METRO-RURAL HOLDINGS LIMITED (中國城鄉控股有限公司)**, a company incorporated in the British Virgin Islands whose registered office is situate at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands, and is listed on the NYSE MKT under the ticker symbol “CNR”;
- (II) MR. CHENG CHUNG HING (鄭松興)**, [ID and address not disclosed] (“the Lender”).

**WHEREAS :-**

The Borrower is desirous of borrowing an unconditional and unsecured fixed term loan from the Lender for business purpose and the Lender has agreed to advance a loan of **Two Hundred Million Hong Kong Dollars only** (“the Loan”) to the Borrower effective from **November 3rd, 2015** (“the Date of the Advance”) upon both Parties entering into the covenants and obligations hereinafter contained.

**NOW IT IS HEREBY AGREED** by the parties hereto as follows :-

**1. REPAYMENT**

- 1.1 Subject to and without prejudice to other provisions, terms or conditions herein contained the BORROWER hereby COVENANTS with the Lender that the Borrower shall repay the Lender in full the Loan within **Seven** calendar days from the Date of Advance (“Maturity Date”) with interest at **6% per annum**, with effect from the Date of the Advance until repayment of whole Loan and interest.
- 1.2 Interest of the Loan is to be compounded on an annual basis, payable at one time on the Maturity Date. All interest calculated shall be computed based on the actual number of days elapsed in a year consisting of 365 days.
- 1.3 Early repayment of the Loan can be made before the Maturity Date with no additional interest and penalty.
- 1.4 If the Borrower is late or default in repayment of loan and/or payment of interest, 2% penalty calculated on monthly basis will be applied to the Loan and/or overdue interest until repayment of Loan and/or payment of all outstanding interest from Borrower.

2. TRANSFER

This Loan may be assigned or transferred in whole only by the Lender in writing and the Borrower shall upon receipt of the notice of such assignment or transfer facilitate any such assignment or transfer of the Loan to the party assigned by the Lender.

3. GOVERNING LAW AND JURISDICTION

3.1 This Agreement shall be governed by and construed in accordance with the laws of Hong Kong S.A.R.

3.2 Both Parties agree that any legal action or proceeding arising out of or relating to this Agreement may be brought in the courts of Hong Kong S.A.R. and irrevocably submits to the non-exclusive jurisdiction of such courts.

4. DECLARATION

The Lender hereby DECLARE that the Lender had sought independent legal advice in respect of this transaction and the contents of this Agreement.

IN WITNESS whereof the parties hereto have duly executed this Agreement the day and year first above written.

SIGNED by Sio Kam Seng )  
For and on behalf of )  
CHINA GLORIOUS CITY )  
HOLDINGS LIMITED )  
(華耀城控股有限公司), )  
the Borrower in the presence of :-

SIGNED by )  
MR. CHENG CHUNG HING )  
(鄭松興), )  
HKID NUMBER: G297436(2) )  
the Lender in the presence of :-

Dated : 3rd November 2015

\*\*\*\*\*

**CHINA GLORIOUS CITY HOLDINGS LIMITED**  
**(華耀城控股有限公司)**

and

**CHENG CHUNG HING**  
**(鄭松興)**

\*\*\*\*\*

**LOAN AGREEMENT**

\*\*\*\*\*



**THIS LOAN AGREEMENT made this 20th January, Two Thousand and Sixteen.**

**BETWEEN :**

- (I) **CHINA METRO-RURAL HOLDINGS LIMITED (中國城鄉控股有限公司)**, a company incorporated in the British Virgin Islands whose registered office is situate at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands, and is listed on the NYSE MKT under the ticker symbol “CNR” (“the Borrower”);
- (II) **CHENG CHUNG HING(鄭松興)**, [ID and address not disclosed] (“the Lender”).

**WHEREAS :-**

The Borrower is desirous of borrowing an unconditional and unsecured fixed term loan from the Lender for business purpose and the Lender has agreed to advance a loan of **Fifty Million Hong Kong Dollars only** (“the Loan”) to the Borrower effective from **January 20, 2016** (“the Date of the Advance”) upon the Borrower entering into the covenants and obligations hereinafter contained.

**NOW IT IS HEREBY AGREED** by the parties hereto as follows :-

**1. REPAYMENT**

- 1.1 Subject to and without prejudice to other provisions, terms or conditions herein contained the BORROWER hereby COVENANTS with the Lender that the Borrower shall repay the Lender in full the Loan within **One** calendar year from the Date of Advance (“Maturity Date”) with interest at **15% per annum**, with effect from the Date of the Advance until repayment of whole Loan.
- 1.2 Interest of the Loan is to be compounded on an annual basis, payable semi-annually on **January 19, July 19** of each calendar year with the first such compounding to be paid on **July 19, 2016**.
- 1.3 Early repayment of the Loan can be made after anytime from the Date of the Advance with no additional interest and penalty.
- 1.4 If the Borrower is late or default in repayment of loan and/or payment of interest, 2% penalty calculated on monthly basis will be applied to the loan and/or overdue interest until repayment of loan and/or payment of interest from Borrower.

**2. TRANSFER**

This Agreement may be assigned or transferred in whole only by the Lender and the Borrower shall upon receipt of the notice of such assignment or transfer facilitate any such assignment or transfer of the Agreement.

3. GOVERNING LAW AND JURISDICTION

3.1 This Agreement shall be governed by and construed in accordance with the laws of Hong Kong S.A.R.

3.2 The Borrower agrees that any legal action or proceeding arising out of or relating to this Agreement may be brought in the courts of Hong Kong S.A.R. and irrevocably submits to the non-exclusive jurisdiction of such courts.

4. DECLARATION

The Lender hereby DECLARE that the Lender had sought independent legal advice in respect of this transaction and the contents of this Agreement.

IN WITNESS whereof the parties hereto have duly executed this Agreement the day and year first above written.

SIGNED by Sio Kam Seng )  
For and on behalf of )  
CHINA METRO-RURAL )  
HOLDINGS LIMITED )  
(中國城鄉控股有限公司),  
the Borrower in the presence of :-

SIGNED by Mr. Cheng Chung Hing )  
the Lender in the presence of :- )  
)

Dated : 20th January 2016

\*\*\*\*\*

**CHINA METRO-RURAL HOLDINGS LIMITED**  
**(中國城鄉控股有限公司)**

and

**CHENG CHUNG HING**  
**(鄭松興)**

\*\*\*\*\*

**LOAN AGREEMENT**

\*\*\*\*\*

**Bank of China****Working Capital Loan Contract**

The Borrower: **China Glorious City (Nanyang) Industries Co., Ltd.**

The Lender: **Bank of China, Nanyang Branch**

The Borrower and the Lender has entered into this contract (this “Contract”) upon mutual agreement regarding granting of working capital loan.

**Section 1     Loan Amount**

Currency type: **RMB**

Loan amount: (In words) One Hundred Million  
(In numbers) 100,000,000

**Section 2     Tenure of the Loan**

Tenure of the Loan: **12** months, from the day of the drawdown. In case of drawdown in stages, from the day of the first drawdown.

The Borrower shall strictly follow the timetable of the drawdown. In case where the drawdown of the Loan is later than the timetable, the Borrower shall repay the Loan as agreed under this Contract.

**Section 3     Purpose of the Loan**

Loan Purpose: **Advertising expenses for the project**

Unless otherwise agreed by the Lender in writing, the Borrower shall not change the purpose of the Loan. The Borrower shall not, including but not limited to, use the Loan for the purpose of fixed assets and securities investments, and used for the purpose of production and business operations that are prohibited by the country.

**Section 4     Interest Rate and Interest Calculations**

## 1.     Loan interest

The interest rate shall use method (2) of the following:

- (1) fixed interest rate, with annual rate of **[Blank]**%, and shall not change for the tenure of the Loan.
- (2) floating rate, calculated from the from the date of the drawdown (in case of drawdown by instalments, it shall be the date of first drawdown) and the floating rate shall be reset in a cycle of every **12** months. The interest rate reset date shall be the first day of the next cycle, which will be the same date as the corresponding interest calculation date. In case there is no such corresponding date during such month, the last day of the month shall be used.

For each drawdown:

RMB loan floating interest rate (pricing based on the loan base interest rate from the National Interbank Lending Center)

- A. First cycle (from the first drawdown date to the date when this cycle ends), interest rate for the period shall be the average base lending rate from the National Interbank Lending Center from the previous business day plus 5 basis points.
- B. On interest rate reset day, and together with other drawdown from the Loan, interest rate for the period shall be reset at the average base lending rate from the National Interbank Lending Center from the previous business day plus 5 basis points.

## 2.     Interest calculation

Interest shall be calculated from the day of the drawdown based on the drawdown amount and the actual days of outstanding.

Interest calculation formula: Interest = Principal X Actual Days the Loan remained outstanding X Daily interest rate

Daily interest rate is calculated based on 360 days per year, i.e. Daily interest rate = Annual rate/360

## 3. Interest settlement method

The Borrower shall use method **(2)** of the following:

- (1) Calculated quarterly, the 20th day of last month of each quarter shall be the interest calculation day, 21st day of that month shall be the interest payment day;
- (2) Calculated monthly, the 20th day of each month shall be the interest calculation day, 21st day of the that month shall be the interest payment day;

In case where the Borrower's final repayment day is not an interest payment day, the final repayment day shall become interest payment day and the Borrower shall settle all interest payable thereon.

## 4. Penalty interest

- (1) In case of the Loan become overdue or being misused for purpose other than agreed under this Contract, penalty interest shall be calculated based on the penalty interest rate as agreed under this Contract from the date on which the Loan become overdue or being misused until the date when the Loan and interest are repaid.

In case where the Loan is overdue and being misused, a higher penalty interest rate shall be used for the calculation of penalty interest.

- (2) In case where the Borrower fails to pay interest and penalty interest promptly, compound interest shall be calculated based on penalty interest rate as agreed under this Contract, and shall be settled in accordance with paragraph 4(3) of this Section.

- (3) Penalty interest rate

Floating rate loan penalty interest rate

- A. The penalty interest rate shall be set in accordance with paragraph 4(1) of this Section. Penalty interest rate shall be reset on the date corresponding to the date on which the portion of the Loan is overdue or misused. In case there is no corresponding date for the month, the last day of the month shall be used.
- B. Overdue penalty interest rate shall be the 50% above the base penalty interest rate stipulated in paragraph 4(3)C of this Section. Misused penalty interest rate shall be the 50% over the base penalty interest rate stipulated in paragraph 4(3)C of this Section.
- C. Overdue or misused penalty interest rate for the first cycle shall be the interest rate enforced for the period. The penalty interest for subsequent cycle shall be reset in accordance with paragraph 4(1) of this Section.

**Section 5 Drawdown Conditions**

The Borrower shall satisfy the following prior to drawdown:

1. This Contract and its supplement is effective;
2. The Borrower has provided guarantees as requested by the Lender and guarantee contract has been executed and has been approved, registered and filed;
3. The Borrower has reserved or executed and fulfilled for the Lender relevant documents, invoices, chops, personnel list, signature samples, and has completed relevant vouchers;
4. The Borrower has opened all necessary bank account for the fulfillment of this Contract at the request of the Lender;
5. The Borrower has submitted to the Lender a copy of written drawdown application and related supporting documents for the purpose of the Loan **3** bank business days prior to the drawdown, to process the drawdown application;
6. The Borrower has submitted to the Lender a copy of authorization letter for the execution of this Contract from Board of Director or other departments with the power to authorize the execution of this Contract; and
7. Other conditions as required by laws and regulations and both parties under this Contract.

Unless otherwise agreed by the Lender, the Lender has the right to refuse the drawdown application in case any of the above is not fulfilled.

**Section 6 Drawdown Day and Method**

1. The Borrower shall make drawdown based on method (2) below:

- (1) One single drawdown on [blank].
- (2) One single drawdown within 30 days from March 25, 2016.
- (3) To drawdown based on the following timetable:

[Blank]

2. The Lender has the right to refuse the Borrower's drawdown application in case the drawdown application is beyond the above timetable for any unutilized loan amount.

3. Commitment fee

In case where the Borrower fails to drawdown the Loan pursuant to paragraph 1 of this Section ("Undrawn Loan"), the Lender shall have the right to receive a commitment fee, calculated based on the amount of the Undrawn Loan multiply by number of days past the agreed drawdown deadline and an annual rate of 0.1%.

The receipt date for the commitment fee shall be within 30 days after the agreed drawdown deadline.

**Section 7 Granting of the Loan**

1. Loan grant account

The Borrower shall open account at the Lender for the purpose of the loan grant, the grant and payment of the Loan shall be made through this bank account.

Account name: China Glorious City (Nanyang) Industries Co., Ltd.

Account Number: [Not disclosed in this translation]

2. Loan payment method

- (1) The payment of the Loan is made in accordance with relevant laws and regulations and as agreed under this Contract, the method of the payment of the Loan shall be stated and confirmed in the drawdown application of the Loan. The Lender has the right to change the granting/payment method in case where the Lender considers that the payment method chosen by the Borrower does not comply with the requirements.
- (2) Lender's entrusted payment, which means the Lender shall make payments to trading third parties of the Borrower in accordance with the purpose of the Loan under this Contract. In accordance with the rules and regulations of China Banking Regulatory Commission and the Lender's internal requirements, purpose for which the Loan is granted satisfied the one of the followings shall use lender's entrusted payment method:
  - (A) The credit relationship between the Borrower and the Lender is newly established and the Borrower's credit rating has not reached the required level by the Lender;
  - (B) At the time of drawdown application, the payee is clear as to name of bank account and bank account number and the drawdown of the Loan exceeded RMB10,000,000.
  - (C) Other conditions agreed between the Borrower and the Lender [blank].
- (3) The Borrower's payment method, which means the Lender would transfer the Loan to the Borrower's bank account at the Lender in accordance with the drawdown application and the Borrower shall make payments on its own to its trading parties that is complied with the conditions under this Contract. Except for the circumstances agreed above which shall use entrusted payment method, the Borrower shall make payment on its own on other amount of the Loan.
- (4) Change of payment method. In case where after the submission of the drawdown application there is a change in the Borrower's payment to third parties and/or change in credit rating where such change has satisfied the requirement under paragraph 2(2) under this Section, the payment method shall be changed. In case where there is change in the payment method, or in the case a change in the payment amount, payee or a change of the purpose of the Loan, the Borrower shall submit to the Lender a change application in writing, to re-submit a drawdown application and supporting documents for the purpose of the Loan.

## 3. Specified requirements on entrusted payment method

- (1) Entrusted payment. In case where payment is in compliance with the conditions of entrusted payment method, the Borrower shall clearly include in its drawdown application such entrust, which shall authorize and entrust the Lender to transfer to drawdown of the Loan from the Borrower's account to the bank account of the trading party for which the purpose of the Loan is in compliance with the conditions under this Contract, and shall include the name, account number and amount of the payment of the trading party, which is necessary for the entrusted payment.
  - (2) Provision of transaction information. For payment in compliance with the conditions of entrusted payment method, the Borrower shall, at each drawdown, submit to the Lender its account details, trading party's account details and documents to prove that such drawdown is in compliance with the purpose of the Loan under this Contract. The Borrower shall undertake that all documents provided to the Lender are true, complete and valid. The Lender shall not be held responsible in case where information provided by the Borrower is false, inaccurate or incomplete and as a result the entrusted payment is unable to complete on time. The Borrower's responsibility on repayment of the Loan from past drawdown shall not be affected.
  - (3) The fulfillment of the Lender's responsibilities under entrusted payment method
    - (A) In case where Lender's entrusted payment method is used, the Lender shall transfer to the Borrower's trading part upon review and approval of drawdown application after submission of related documents and application by the Borrower.
    - (B) The Lender has the right to request the Borrower for supplements, replace, elaborate or re-submit relevant materials in case where the documents provided by the Borrower do not satisfy the requirements under this Contract or are incomplete. The Lender has the right to refuse any payment of the Loan prior to the provision of documents by the Borrower are satisfied by the Lender.
    - (C) The Lender shall not be responsible in case where the Borrower is unable to make payment under entrusted payment method to its trading party due to funds being returned from bank of the trading party of the Borrower. In case where funds being returned from the bank of the Borrower's trading party, the Borrower hereby authorize the Lender to freeze such funds. Under this circumstances, the Borrower shall re-submit the entrusted payment application and related supporting documents to the Lender.
  - (4) The Borrower shall not split the amount into smaller amount to avoid the Lender's entrusted payment method.
4. Subsequent to the granting of the Loan, as requested by the Lender, the Borrower shall provide to the Lender records and information regarding usage of the Loan, including but not limited to procurement contracts, etc.
5. In the event of any of the following, the Lender has the right to re-establish the terms for the granting and payment of the Loan or to stop granting and payment of the Loan:
- (1) The Borrower breach the terms as agreed under this Contract and has split the amount into smaller amount to avoid the Lender's entrusted payment method;
  - (2) The credit rating of the Borrower dropped or the profitability of the Borrower's main business is not strong;
  - (3) Abnormally occurred in the use of the Loan proceeds;
  - (4) The Borrower fails to provide record and information to the Lender promptly as requested by the Lender;
  - (5) The Borrower made payments using the Loan which has violated the purpose of the Loan as agreed under this Contract.

**Section 8 Repayment of the Loan**

1. The Borrower designates the following bank account as funds collection account, any funds collected by the Borrower shall be deposited into the funds collection account. The Borrower shall provide details of funds movement of the funds collection account. The Lender has the right to supervise and request the Borrower to provide explanation on significant or abnormal fund movements in the funds collection account.

Account name: **China Glorious City (Nanyang) Industries Co., Ltd.**

Account Number: **[Not disclosed in this translation]**



2. Unless otherwise agreed by both parties, the Borrower shall repay the Loan under this Contract under method **(1)**:

- (1) The Borrower shall repay the entire Loan under this Contract upon maturity of the Loan tenure.
- (2) To repay the Loan under this Contract based on the following repayment plan:

Repayment Date  
[Blank]

Repayment Amount  
[Blank]

In case where the Borrower wants to change the above repayment plan, the Borrower shall submit in writing to the Lender 15 bank business days prior to the maturity of the related installment. Such change in repayment shall only take effect upon written confirmation by both parties.

3. Unless otherwise agreed by both parties, in the case where the principal and interest overdue by the Borrower to the Lender at the same time, the Lender shall have the right to decide the order of repayment. In case where there are multiple loans overdue by the Borrower to the Lender at the same time, the Lender has the right to decide the order repayment of different loans.

4. Unless otherwise agreed by both parties, the Borrower may repay the Loan earlier, by notifying the Lender in writing 30 bank business days before the early repayment. The early repayment shall first repay the loan which has the latest due date, in descending order of maturity.

The Lender has the right to charge the Borrower a change of repayment terms fee at a rate of 0.1% for early repayment of the Loan from the Borrower.

5. The Borrower shall repay the Loan by following method.

The Borrower shall deposit sufficient funds into the following bank account for the portion of the Loan and its interest **1** bank business days prior to the due date. The Lender shall have the right to deduct the money from this bank account upon the due date of portion of the Loan.

Name of Account: **China Glorious City (Nanyang) Industries Co., Ltd.**

Account Number: [Not disclosed in this translation].

## Section 9 Guarantees

1. The indebtedness under this Contract shall be guaranteed by:

A "Maximum Ceiling Guarantee Contract" is entered into between the China Glorious City Investments (Zhoukou) Co., Ltd. and the Lender with serial number of "2016 NYH Gao Bao Zong Zi 008" for a guarantee limited by a ceiling provided by China Glorious City Investments (Zhoukou) Co., Ltd.

2. In case where the Lender believe there are some issues adversely affecting the Borrower's or Guarantor's fulfillment ability of the contract, or the Guarantee becoming invalid, being revoked or cancelled, or Borrower's or Guarantor's financial situation deteriorating or involving in material litigation or arbitration, or other reasons adversely influencing Borrower's or Guarantor's repayment ability, or any breach of contracts, depreciation, damage, loss, closed down of the guaranty in any other contracts between Borrower and Guarantor which might deducting or losing the value of the guaranty, the Lender shall have the right, as the same time, the Borrower shall have the responsibility to provide the new guaranty, increase or replace guarantor, in order to guarantee the liability.

## Section 10 Representations and Undertakings

1. The following representations are made by the Borrower:

- (1) The Borrower is legally registered and existed, and the Borrower possess a complete civic and behavioral ability to enter and execute this Contract. The Borrower is the legal representative of the new project and its controlling shareholder is of sound credit status and there were no significant adverse record. The new investment project shall fulfill the requirement regarding main investor qualification and operating capital set by the central government of The People's Republic of China.
- (2) The execution and fulfillment of this Contract represent true intent of the Borrower, and has legally and effectively completed all necessary authorizations in accordance with its articles of association and internal management requirements and does not breach any other agreements, contracts and other legal documents that are binding to the Borrower. The Borrower has or will have obtained all the approvals, permissions, filings and registrations related to the execution and fulfillment of this Contract.
- (3) All documents, financial reports, vouchers and other information provided from the Borrower to the Lender are true, complete, accurate and valid.
- (4) The business transaction background described to the Lender by the Borrower is real, legitimate and is not undertake for the purpose of money laundering.

- (5) The Borrower is of sound credit and there were no significant adverse record. The Borrower did not hide any issue which will adversely affect the financial position and fulfillment of contract of Borrower and the Guarantor.
  - (6) The Borrower and the project for the Loan achieved the environmental protection standard and the Borrower and the project are not being published and confirmed as high energy wastage and high pollution enterprise by non-governmental organizations, and the issues of high energy wastage and pollution do not exist for the Borrower and the project.
  - (7) Other representations by the Borrower: **[Blank]**.
2. The following undertakings made by the Borrower:
- (1) At the request of the Lender, periodically or promptly provide financial reports (including but not limited to annual report, quarterly reports and monthly reports) and other relevant information to the Lender. The Borrower shall also ensure that the gearing ratio shall not exceed 90% on a continuous basis.
  - (2) In case where the Borrower has entered into a reverse-guarantee agreement or similar agreement with the guarantor, such agreement, such agreement shall not damage any of the Lender's rights under this Contract.
  - (3) To accept, and to provide sufficient assistance and coordination to the Lender's credit checks and supervision. In case where the Borrower make payments from the Loan on its own, to provide report on payment of the Loan, usage status to the Lender periodically on a monthly basis before 5th day of each month.
  - (4) In case of consolidation, spin-off, capital reduction, transfer of ownership, external investment, increase in debt financing, material asset or indebtedness transfer and other events that may affect the Borrower's repayment ability, the Borrower shall obtain a prior written consent from the Lender.

In the event of the following the Borrower shall notify the Lender immediately:

- (A) Change in articles of association, area of business, registered capital and legal representatives of the Borrower or its guarantor;
  - (B) Change of business model by conducting any form of joint ventures, joint venture, cooperation, subcontracting restructuring, reform, plan of listing with foreign enterprise, etc.
  - (C) Involvement in material litigation or arbitration, or seizure, retention or supervision of assets or collateral, or set up of new collateral on secured assets.
  - (D) Out of business, dismissal, liquidation, suspension of business, revocation or cancellation of business license, apply for (or being applied for) bankruptcy.
  - (E) Involvement of material case or economic dispute by shareholders, directors and existing senior management;
  - (F) Breach of other contracts by the Borrower;
  - (G) Event of operational difficulty and deterioration of financial status, etc.
- (5) The Loan shall rank senior to loans from shareholders of the Borrower and shall not rank junior to similar debts of the Borrower.
  - (6) The Borrower shall not distribute any form of dividend prior to the full repayment of principal, interest and other related expenses of the Loan under this Contract.
  - (7) The Borrower shall not dispose of its assets which would result in the lowering of its repayment capacity and the Borrower undertakes it shall not provide guarantee to third parties to an aggregate value of exceeding its net assets value and single or aggregate value of guarantees provided shall not exceed the restrictions as stipulated in its articles of association.
  - (8) Unless as otherwise agreed by the Lender and terms under this Contract, the Borrower shall not transfer the Loan to other bank accounts of the Borrower or its related parties.  
  
In case where transfer is made to the Borrower's other bank accounts or related parties bank account, the Borrower shall provide relevant supporting documents.
  - (9) Guarantees provided by the Borrower to the Lender, pricing of interest rate and repayment order of the Loan under this Contract shall not below current or future terms offer to other financial institute.

- (10) The Lender has the right to request early repayment of the Loan depending on the funds collection status of the Borrower.
- (11) Other undertakings by the Borrower: **[Blank]**.

**Section 11 The Disclosures of Related Party Transactions within the Group of the Borrower**

Both parties agreed to use method **2** of the following:

1. **[Not applicable]**
2. The Borrower has been confirmed as a group customer of the Lender in accordance with “Guide on Risk Management of Credit Business of Group Customers of Commercial Bank” (hereafter the “Guide”). The Borrower shall report to the Lender the nature of any related party transactions exceeding 10% of its net assets value, including the relationship between the counterparty and the Borrower, subject of the transaction, amount of the transaction and its proportion to other transactions and pricing policies (including transactions with no value or of symbolic value).

In the event of the following, the Lender has the right to unilaterally stop further grant of the unused Loan to the Borrower and shall has the right to recall part of all of the principal and interest of the Loan prematurely: Obtain bank credit through creation of bills receivable, accounts receivable, etc by falsified contracts entered with related parties where such contract does not contain actual trade background; In the event of material merger and acquisition or restructuring which the Borrower considers may affect the safeguarding of the Loan; Evading of bank liabilities with willful intent; Events stipulated in Section 18 of the Guide.

**Section 12 Event of Default and Treatment**

1. Any of the following constitute an event of the default by the Borrower under this Contract:
  - (1) The Borrower fails to repay all liabilities due to the Lender arising from this Contract;
  - (2) The Borrower fails to make payments using the funds from the Loan in accordance with terms agreed under this Contract, or use the funds from the Loan for purpose other than those agreed under this Contract, or split the amount of a payment into smaller payments to avoid the Lender’s entrusted payment;
  - (3) Representations made by the Borrower is untrue, or the Borrower is in breach of its undertakings under this Contract;
  - (4) In any of the events as stated in Section 2(4) where the Borrower considers may affect the financial status of and ability to fulfill this Contract by the Lender or guarantor, and the Borrower fails to provide new collateral or new guarantor;
  - (5) The Borrower is in breach of other contracts with the Lender or any institutes under the Bank of China;
  - (6) Deterioration in the Borrower’s credit status, deterioration in the Borrower’s financial indicators such as profitability, debt repayment ability, operating ability or cash flows, and has exceeded threshold set or agreed under this Contract;
  - (7) The guarantor is in breach of guarantee contract with the Lender or other contracts with any institutes under the Bank of China;
  - (8) In the event that the Borrower is out of business, dismissed, revoked or bankrupted;
  - (9) The Borrower involves or may involve in material economic dispute, litigation or arbitration, or seizure, retention or supervision of assets, or being investigated or punished by judicial authorities, tax bureau, trade and industry bureau, etc administrative authorities, has or may has affected the fulfillment of responsibilities by the Borrower under this Contract;
  - (10) Unusual change of, disappearance of, or investigation or limitation of personal freedom by judicial authorities of, individual shareholders and key management;
  - (11) Discovery of event that may affect the Borrower’s or the guarantor’s financial status or contract fulfillment ability during yearly (each anniversary of from the execution of this Contract) review of the Borrower’s financial status or contract fulfillment ability;
  - (12) The Borrower fails to provide explanation materials approved by the Lender in relation to significant or abnormal fund movements in the designated funds collection account.
  - (13) The Borrower is in breach of its responsibilities as agreed under this Contract.

2. In any of the event of default as stated above, the Lender has the right, according to specific circumstance, to take following actions:
- (1) To request correction by the Borrower or guarantor within deadline;
  - (2) Partially or entirely reduce, suspend, cancel or terminate the Loan facility to the Borrower;
  - (3) Partially or entirely suspend or terminate drawdown application from the Borrower under this Contract or other contracts with the Lender. Partially or entirely suspend, suspend, terminate the grant, payment and process of the any loan and loan applications.
  - (4) Declare part or all of the Loan under this Contracts, other loans due to the Lender by the Borrower and their interest due immediately.
  - (5) Termination or relieve of this Contract, Entirely or partially terminate or relieve other contracts between the Borrower and the Lender.
  - (6) Demand the Borrower for loss arising from Borrower's event of default.
  - (7) To deduct funds from the Borrower's bank account with the Lender, or other institutes under Bank of China to repay the part of all of the Loan under this Contract. Any unexpired loans would be deemed fall due. In case of difference currencies in other accounts of the Borrower, exchange rates applicable at the time of deduction would be used.
  - (8) Exercise the Lender's right to collateral.
  - (9) Request responsibilities from the guarantor.
  - (10) Any other measures that the Lender deemed necessary.

### **Section 13      Reservation of Rights**

The non exercise of part or all of the rights by any party to this Contract, or absence of request by that party to the other party for the fulfillment of that other party's responsibilities shall not be deemed as forfeiture of such rights by or waiver of such responsibilities from that party.

Any tolerance, extension, or delay in the fulfillment of the rights under this Contract from one part to another party shall affect one party's entitlement to any of its rights in accordance with laws and regulations and under this Contract, and shall not be deemed to have forfeit any of those rights.

### **Section 14      Modification, Amendment and Termination**

This Contract may be amended upon written agreement between both parties to this Contract and such written agreement shall become an integral part of this Contract.

Unless as otherwise agreed or as required by laws and regulations, this Contract shall not be terminated until all rights and obligations under this Contract have been fulfilled.

Unless as otherwise agreed or as required by laws and regulations, invalidation of any of the terms under this Contract shall not affect the legal validity of other terms under this Contract.

### **Section 15      Applicable Laws and Dispute Resolution**

The Contract shall be under the jurisdiction of the laws of People's Republic of China.

Upon the effectiveness of this Contract, any dispute arising from the execution, fulfillment of this Contract or related to this Contract shall be first resolved through negotiation. In case where negotiation fails, the dispute shall be brought to local court in which the Lender (or institutes under Bank of China to which such dispute is related) is located.

During the period of dispute resolution, other terms under this Contract shall continued to be fulfilled by both parties in case where such dispute does not affect the fulfillment of other terms under this Contract.

### **Section 16      Supplement**

1. Drawdown application (Format)
2. Loan note

**Section 17 Other Agreements**

1. The Borrower shall not transfer any rights and obligations under this Contract to any third party unless with a prior written consent from the Lender.
2. The Borrower confirms and approves that the Lender may, according its management needs, assign its rights and obligations under this Contract, or the management of the Loan under this Contract, to other institutes under Bank of China and to be carry out by those institutes. Other institutes under Bank of China which undertook the rights and obligations under this Contract shall have the rights to exercise all of the Lender's rights under this Contract, and shall has to right to act on behalf the Lender for any legal proceedings (include litigations, arbitration, or application for mandatory execution) brought to court.
3. Provided that other terms under this Contract are not affected, this Contract shall be binding to both parties to this Contract and their respective legal successors and transferee.
4. Unless otherwise agreed, both parties designate addresses stated in this Contract to be used as correspondence addresses and to undertake that to notify the other party in writing in case where there is a change in the correspondence address.
5. The transaction under this Contract is executed based on each party's individual interests. In case where as required by laws and regulations and supervisory bodies, other parties involved in this transactions constitute a related party to the Lender, all parties shall not use such relationship to affect the fairness of this transaction.
6. Titles and names of businesses are used for ease of reference only and shall not be construed as interpretations to the terms and rights and obligations of both parties of this Contract.
7. The Lender has the right to provide relevant information of this Contract or the Borrower to People's Bank of China information system or other credit information database set up in accordance with relevant laws so as to allow enquiries from and use by qualified institutes or individuals. The Lender also has the right, for the purpose of this Contract, enquire from such system and database information relating to the Borrower.
8. In case where drawdown day, repayment day is statutory holiday, such days shall be postponed to the next available business day.
9. In case where the Lender is unable to fulfill this Contract or comply with the terms of this Contract as required by laws and regulations, or supervisory authorities or as a result of a change in supervisory rules, the Lender shall has the right to terminate, or as required by laws and regulations, or supervisory authorities or as a result of a change in supervisory rules, amend the terms of this Contract. In case where the termination of this Contract is due to such requirements or change in rules, the Lender is exempted from the responsibilities under this Contract.

**Section 18 Effectiveness of Contract**

This Contract shall become effective upon the signatures and stamps from legal representatives of both parties. There are 5 copies of this Contract, one for each of the Lender, the Borrower and relevant registration department, and shall bear the same legal effect.

The Borrower: China Glorious City (Nanyang) Industries Co., Ltd.

Authorized representative:

The Lender: Bank of China, Nanyang Branch

Authorized representative:

Date: March 25, 2016

## LIST OF SUBSIDIARIES

1. China Metro-Rural Limited, a Cayman Islands incorporated company continued in BVI
2. China Metro-Rural Exchange Limited, (中國城鄉交易所有限公司), a HK company
3. China Northeast Logistics City Co., Ltd., (鐵嶺東北物流城有限公司), a PRC company
4. Tieling Northeast City Advertising Co., Ltd., (鐵嶺東北城廣告有限公司), a PRC company
5. Tieling North Asia Property Management Co., Ltd., (鐵嶺北亞物業管理有限公司), a PRC company
6. Tieling North Asia Development Co., Ltd., (鐵嶺北亞發展有限公司), a PRC company
7. Tieling Northeast City Motor Vehicle Trading Co., Ltd., (鐵嶺東北城機動車交易有限公司), a PRC company
8. Tieling Shengtai Hotel Co., Ltd. (鐵嶺市晟泰酒店有限公司), a PRC company
9. M.S. Electronic Emporium Limited, a BVI company
10. China Metro-Rural Development Limited, (中國城鄉發展有限公司), a HK Company
11. China Northeast Logistics City Dezhou Co., Ltd., (德州東北商貿物流城有限公司), a PRC company
12. Dezhou Northeast City Property Co., Ltd., (德州東北城商貿置業有限公司), a PRC company
13. Dezhou North Asia Property Management Co., Ltd., (德州北亞物業管理有限公司), a PRC company
14. Dezhou North Asia Property Co., Ltd., (德州北亞置業有限公司), a PRC company
15. Shenzhen China Northeast Logistics City Co., Ltd., (深圳東北城商貿有限公司), a PRC company
16. China Glorious City Development Limited, (華耀城發展有限公司), a Hong Kong company
17. China Glorious City (Hengyang) Co., Ltd., (華耀城(衡陽)有限公司), a PRC company
18. Hengyang China Glorious City Business Co., Ltd., (衡陽華耀城商業有限公司), a PRC company
19. Hengyang China Glorious City Logistics Co., Ltd., (衡陽華耀城物流有限公司), a PRC company
20. China Glorious City Strategic Limited, (華耀城策劃有限公司), a Hong Kong company
21. China Glorious City Strategic (Zhoukou) Co., Ltd., (華耀城策劃(周口)有限公司), a PRC company
22. Zhoukou Huayu Industries Co., Ltd., (周口華裕實業有限公司), a PRC company
23. Zhoukou Huahui Commercial Real Estates Co., Ltd., (周口市華滙商業地產有限公司), a PRC company
24. China Glorious City Investments Limited, (華耀城投資有限公司), a Hong Kong company
25. China Glorious City Investments (Zhoukou) Co., Ltd., (華耀城投資(周口)有限公司), a PRC company
26. Zhoukou China Glorious Property Co., Ltd., (周口華耀置業有限公司), a PRC company
27. Zhoukou Dongyao Industries Co., Ltd., (周口市東耀實業有限公司), a PRC company
28. China Glorious City Construction Limited, (華耀城建設有限公司), a Hong Kong company
29. China Glorious City Holdings Limited, (華耀城控股有限公司), a Hong Kong company
30. China Glorious City (Shenzhen) Industries Co., Ltd., (華耀城(深圳)實業有限公司), a PRC company
31. China Glorious City (Handan) Industries Co., Ltd., (華耀城(邯鄲)實業有限公司), a PRC company
32. China Glorious City (Handan) Business Co., Ltd., (華耀城(邯鄲)商業有限公司), a PRC company
33. Handan Huahui Business Co., Ltd., (邯鄲華滙商業有限公司), a PRC company
34. Handan Yaomin Logistics Co., Ltd., (邯鄲耀民物流有限公司), a PRC company
35. China Glorious City (Nanyang) Industries Co., Ltd., (華耀城(南陽)實業有限公司), a PRC company
36. China Glorious City (HK) Industries Limited, (華耀城(香港)實業有限公司), a Hong Kong company

**Certification by the Chief Executive Officer and Acting Chief Financial Officer Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Sio Kam Seng, certify that:

1. I have reviewed this Annual Report on Form 20-F of China Metro-Rural Holdings Limited (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the period presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the Annual Report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

August 1, 2016

/s/ Sio Kam Seng

Name: Sio Kam Seng  
Title: Chief Executive Officer and Acting Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of China Metro-Rural Holdings Limited (the “Company”) on Form 20-F for the fiscal year ended March 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Sio Kam Seng, Chief Executive Officer and Acting Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 1, 2016

/s/ Sio Kam Seng

Name: Sio Kam Seng

Title: Chief Executive Officer and Acting Chief Financial Officer



**CONSENT OF VALUATION FIRM**

We hereby consent to the use of the information contained in our reports, dated as of July 20, 2016, relating to valuations of the convertible bonds and certain investment properties, respectively, of the Company.

/s/ Savills Valuation and Professional Services Limited

Hong Kong

August 1, 2016

**CONSENT OF INDEPENDENT VALUER**

We hereby consent to the use of the information contained in our reports, dated as of 20 July 2016, relating to valuations of the convertible bonds of China Metro-Rural Holdings Limited in your annual report.

/s/ APAC Asset Valuation and Consulting Limited

Hong Kong

August 1, 2016